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and BUSINESS ANALYST

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PART 2. 1960 OUTLOOK FOR LEADING INDUSTRIES
—With individual analysis by specialists in each field
Edited by WARD GATES

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Cover Photo: President Eisenhower delivering State of the Union Message to Congress.

C. G. Wyckoff, President and Treasurer; Arthur G. Gaines, Secretary. The information herein is obtained from reliable sources and while not guaranteed we believe to be accurate. Single copies on newstands in U. S. and Canada, 85 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O. New York, Act of March 3, 1879. Published every other Saturday.

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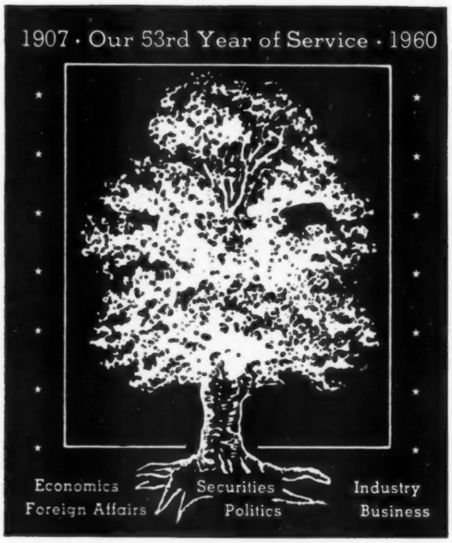
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

POLITICS . . . It now seems evident that the steel settlement which shocked so many of us because of its implications, and the dangerous way it smoothed the path for power-hungry labor leaders, may have represented an attempt by the Administration to clear the decks so that they could concentrate on the stiff developments in the making, both domestic and foreign, in this Presidential Election Year.

There is every likelihood the Soviet Union and Red China have been planning all along to throw a monkey-wrench into our machinery by taking one step after another to endanger our position, with the thought that they would get away with it under the stress of the election campaign.

The first shock came with the surprise announcement by the Soviet Union of rocket tests in the South Pacific, although they possess enormous tracts of land in Siberia which they could use for this purpose.

Once again it emphasizes the Soviet recognition of the strategic importance of Alaska. Only a short time ago one of their leaders referred to the possibility of building a tunnel under the Bering Strait from Alaska to Kamchatka some time in the future—following up a statement made by another Russian, to the effect that the price the United States paid for Alaska was much too low and that it should be returned to Russia. This is a most unlikely prospect—and the Russians know it—but it is bound to be used again and again as a potential trouble-spot that can erupt dangerously.

It can be seen from the above that there is no possibility of peace with the Soviet Union—and also that there is no rift between the Russians and Red China. That, in fact, the latest step in the South Pacific suggests an attempt to bring victory for Peiping through fear, and suggests that the United States would be too weak in any case to come to the defense of the nations of the Pacific—for the Soviet Union would be found side-by-side with Red China in any event.

This is the same technique that was used by Genghis Khan, who, in the Thirteenth Century, overran all of Asia and Eastern Europe. It is the strategy of brute force that we can only counter by building power through spiritual strength and the austerity necessary to give us the vigor and stamina to meet the enemy. Through such a code of discipline Genghis Khan strengthened his people, and perpetuated his empire, reaching from the Pacific to the Danube, for many centuries.

This is a law that the Red Chinese are following with their system of communes and, to judge from a recent report from Moscow, may be adopted by the Soviet Union, who believes its people are apathetic in the face of Western propaganda and are being influenced by our psychological offensive for the free enterprise way of life.

As I See It!

By Charles Benedict

Is Conflict of Interests Among the Western Powers a Handicap or an Advantage in Dealing with Russia?

UNDER the existing circumstances, in which a series of summit meetings is contemplated, it seems to me that so long as there is unity of purpose regarding the containment of Russian expansionist plans, a sound working basis exists between the allies.

If this is assured, then the conflict of interests among the individual countries poses a challenge to the Russians, because it forces them to follow a more flexible, rather than a unyielding policy in order to satisfy the dissidents.

This situation can be used to good account in dealing with Khrushchev, who is now aware that neither President Eisenhower nor Prime Minister Macmillan can make decisions for the entire group—that there must be adjustments satisfactory to de Gaulle and to Adenauer too, if he is to succeed at all in securing the advantages for Russia that he seeks. Yet, at the same time, he knows that both Germany and France can only go so far without loosening the security inherent in the Western alliance, and that he is unlikely by blandishments of one kind or another to win them over to his way of thinking.

In Charles de Gaulle and Konrad Adenauer the Russian leader will find opponents worthy of his mettle—men who will be thinking in terms of survival and the welfare of their people. Both have sophistication gained through years of bitter experience. And they have no illusions about Russian objectives

CONCESSIONS RUSSIA WAS WILLING TO MAKE IN EXCHANGE FOR TRADE CREDIT AND INTERNATIONAL POLITICAL AND MILITARY ADVANTAGES

THE SOVIET OFFER	WHAT THEY WANT IN RETURN
(a) To acknowledge the war debt and to pay the figure of $800 million the U.S. set for settlement.	(1) Sponsored membership in the International Bank for Reconstruction and Development and International Monetary Fund and their affiliates.* (2) No limitations of trade between U.S.A. and U.S.S.R.
* This does not make much sense. The U.S. from the start welcomed U.S.S.R. in the Bretton Woods program and actually assumed part of the U.S.S.R. quota in the IBRD. But Moscow did not want to disclose its gold holdings, trade, etc., as required of IMF members.	
(b) Compromises on Berlin ultimatum.	(1) Agreement for withdral of troops from Berlin as demanded by Soviet Union. (2) Extensive credits by the United States as well as by syndicates of banks.
(c) Agreement to a German plebiscite for unification and a peace treaty to include the 4 occupying powers.	(1) They demand equal supervision on draft for peace treaty, and plebiscite with the 4 occupying powers. (2) Credit insurance by U.S.A. for exports to Soviet Union.
(d) An agreement for perpetual and unconditional neutrality of an independent German state.	(1) Extension of membership to Soviet Union in North Atlantic Treaty Organization. (2) Joint long-term development loans to underdeveloped countries, regardless of whether it is the Soviet Union or the U.S.A. who are interested in their welfare.
(e) Agreement on limitation and inspection of nuclear weapons.	(1) Scrapping of our bases in various countries.
(f) Acceptance of Nationalist China in U.N. with international recognition of Nationalist China.	(1) Admission of Communist China to U.N. and also to IBRD and IMF—with access to capital now allotted to Nationalist China by these institutions. (2) Listing in all international security markets of direct and guaranteed obligations of the U.S.S.R.

(From Russian memorandum of September, 1959)

which—they recognize—would, if realized, submerge both Germany and France in the enveloping movement of Russian power politics.

The help Russia was counting on from Prime Minister Macmillan may be completely neutralized by Britain's latest attempt to maneuver herself into her former position of power on the continent via the "Outer-7" free trade area device, used to counteract the possible effect of the European Common Market on British trade—while it challenges her political ambitions on the continent.

In fact, there has been a continuing and blatant display of animosity toward West Germany in the London press these past couple of years, because Britain was shut out of the European Common Market — although this was merely reprisal for her refusal to give Dominion trade advantages in return. And the stepped-up attacks on the recent show of neo-Nazism in Germany, attributed to the Communists (which, however, could be true)—leads one to wonder whether this stunt might have been planted by London to upset the ultimate political and trade alignment on the European continent —the new bloc that would result from the forces building in the Common Market.

Konrad Adenauer has been a thorn in the side of the British for a long time because of Germany's flourishing trade position, the enhanced prestige of the German mark and the higher standard of living that the German people enjoy.

Thus the alarums of a resurgent Hitlerism sounded in the British press could be intended to weaken Adenauer's position befor the world, and create ill will and fear regarding the emergence of a Nazi-controlled Germany when Der Alter passes from the scene.

The fact that the vandalism is spreading around the world may simply mean that the hooligans on the loose in the various countries are following the lead of what Mayor Willy Brandt of West Berlin calls "devil's hordes." And these psychopaths are having a little fun, counting on plenty of attention in the press.

As far as Konrad Adenauer is concerned, there is no doubt but that the old Chancellor has shown himself to be a man of humanitarian instincts—indeed anxious to wipe out the memories of Nazi brutality—and has sympathetically met the demand for financial reparations from the sufferers of Nazi vandalism and butchery. There is no doubt that the degenerates beating the macabre drum of racial hatred are going to get rough treatment from the West German Government. Already, immediate steps have been taken to crack down on neo-Nazi organizations, which by the way are international in scope, and to secure legislation that would provide stiff prison sentences for the culprits. By such activities, the air will be cleared by the time the first Summit Meeting convenes. We doubt if Khrushchev can expect to get any comfort out of this situation.

Their Number One Problem

From Christian Science Monitor

Before that time, de Gaulle will have visited the United States and Canada, where the large French - Canadian population still look upon France with deep affection and sentimental attachment.

In the meantime, preparations for the first Summit Meeting are moving forward. And since others are to follow, the way is left open for practical solutions of pretty serious problems as conferences follow each other.

There seems every evidence that Khrushchev's visit to this country may yet prove to have been the first step toward a thaw in relations between the Soviet Union and the West. He evidently found that he had too greatly simplified conditions that existed in the United States, judging from the outrageous political, military and financial concessions they had planned to demand for giving up trifles, as contained in a memorandum freely circulated in the United States early last September, the details of which are given in the box on page 442.

If these were the demands that Khrushchev intended to make, or merely Russian propaganda expressing contempt of the United States for world consumption just prior to Khrushchev's visit—we do not know. At any rate, such a memorandum seen abroad unquestionably accounted for the uneasy feeling regarding the position of the United States. In any event, it had a tendency to surround us in an atmosphere of weakness.

President Eisenhower's goodwill tour of 11 nations did much to raise the regard for the United States to a higher level, and dispelled doubts as to our peaceful intentions toward the other nations of the world that had been avidly fostered by Russian propaganda. It must *(Please turn to page 496)*

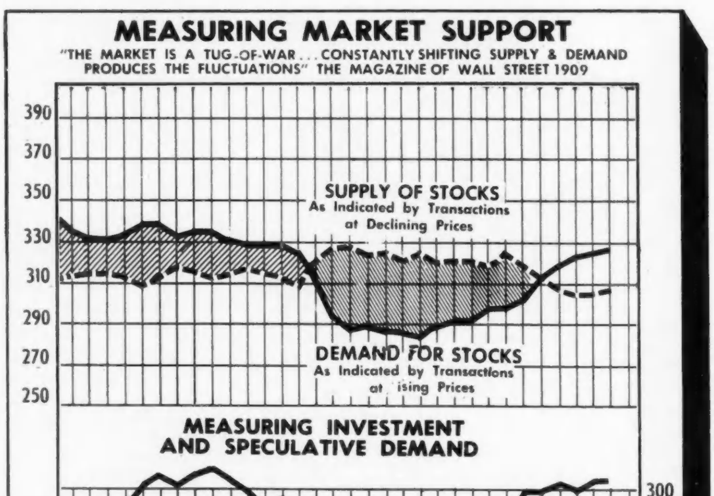
Washington -- And The Securities Market

Political influences becoming increasingly evident in governmental decisions and policies, seem likely to have important influence on stock price behavior. Inflationary significance of steel strike settlement may have been over-emphasized for time being. High rate of industrial activity in coming months may serve as sustaining influence on sentiment despite threat of renewed stiffening in money rates. Group rotation in relatively narrow range logical over near term. Trend inconclusive.

By A. T. MILLER

THE Presidental Election Year opened with political overtones which may prove to be the most important influence in 1960 financial markets. An inclination to stress political motives was vividly illustrated in the somewhat surprising settlement of the steel strike behind closed doors in Washington. The fact that Vice-President Nixon and Labor Secretary Mitchell figured prominently in working out an agreement received greater attention because both have been mentioned as leading candidates for a Republican ticket. Hence, as the year unfolds, investors and traders must reckon closely with politics and its effect on our economy and on labor decisions in coming negotiations.

The agreement which removes apprehension over a possible resumption of a work stoppage in the nation's steel mills stands as the major stock market influence of the moment. Because management spokesmen frankly admitted that last summer's objective of a non-inflationary settlement had been sharply rebuffed, it was only natural that the labor victory should be interpreted in the stock market as inflationary. Closer examination of the terms, disclosed, however, that there will be a delayed impact as far as reported wage-and-benefit increases estimated at 39 to 41 cents an hour, are concerned.



Moreover, as it became apparent that steel mills would not put into effect any general price advance, until late this year, uneasiness over the seeming threat to profit margins from various sources manifested itself. There is little doubt but that in spite of a relatively high operating rate likely to prevail for months, many cost factors will rise—such as quotations on raw materials and transportation. Efficiency and volume may effectively counteract an uptrend in manufacturing costs for a time, and indications point to continuance of favorable factors for the near term.

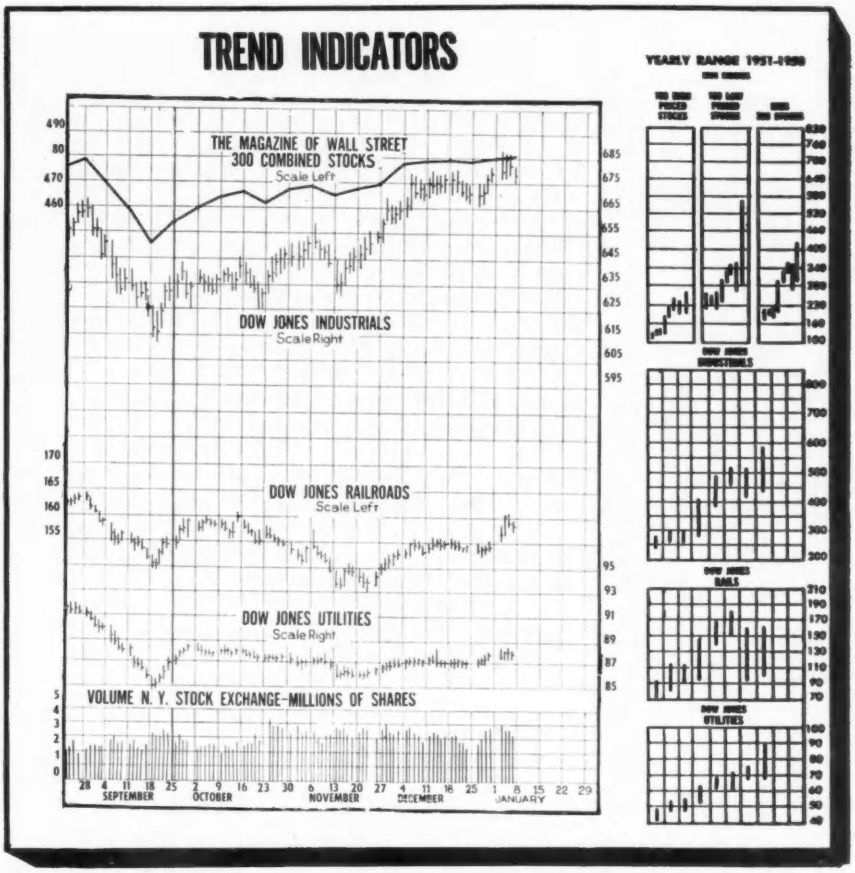
The fact that the first of two general wage revisions, an increase of 7 cents an hour, does not become effective until December 1 and that increases in steel prices are unlikely prior to that date should serve as a restraining influence on inflationary tendencies. Although commentators have hinted at a "political deal" in deferring the inflationary impact until after the November elections, it is important from a market standpoint to recognize that this usually bullish influence has been muted for the time being. More important as a market factor is the promise of adequate raw materials for the automotive industry

and other principal consumers.

High Industrial Activity

Assurance of abundant supplies of steel, aluminum, copper, etc., will enable motor car manufacturers to schedule production in record volume in the next two or three months—provided, of course, that consumers evince a sufficient interest in new 1960 models. Detroit observers think that output in March may surpass the previous peak set in 1955.

An upsurge in automotive plants across the country promises to give impetus to industrial activity that may justify President Eisenhower's optimistic forecast in his "peace and prosperity" State of the Union message at the opening of Congress.



The stage has been set for a vigorous rebound in our economy that may well persist through the first six months, and possibly into the third quarter. Moreover, the emphasis by the President of increased military expenditures and space and missile projects indicates that production will be kept rolling.

Prospect of "the most prosperous year in our history" mentioned by Mr. Eisenhower probably would have roused greater enthusiasm in financial markets if it had not been for the obvious fact tohat share prices have been advancing to new highs in discounting the anticipated rebound in employment and output and if it had not been for imminence of problems induced by credit stringency.

Revival of the specter of rising interest rates poses another handicap for the moment. Despite the fact that funds normally tend to become more plentiful as holiday borrowings are repaid, stringency has developed this year in reflecting demand for financing an expansion in inventories of raw materials—notably steel. Scarcity of credit found reflection in a boost in call money rates to 5½ per cent, indicating possibility of a rise in the prime rate above 5 per cent and perhaps an upward revision in the rediscount rate charged by Federal Reserve banks.

Effect of Higher Interest on Margin Accounts

Since member firms are required by the Stock Exchange to charge clients half a point more than the rate at which they themselves borrow funds from banks, the boost to 6 per cent on debit balances in margin accounts tends further to handicap traders holding securities with brokers. Moreover, there is a question whether member firms can obtain sufficient funds with which to accomodate small investors who wish to trade on margin. As a result, margin transactions may be expected to contract further. Increase in the margin requirement to 90 per cent already had restricted this type of business.

On Balance

On the one hand, we have the powerful stimulus of resurgent activity after the disastrous steel strike—on the other hand, the let-down that is bound to follow months of all-out production to fill up the supply pipelines and to replenish inventory requirements. Thus, as we move into the second half, our economy will begin to feel the effects of the tightening in credit and higher money rates, with a slowdown in the key building industry and in those areas of business where sales are encouraged to a large extent by ready credit and reasonable terms.

The tightening of call money will have a tendency to make stocks less attractive, although a market factor of considerable importance is bound to emerge in the talk of revaluation of our currency. This is a matter of profound concern to each of us, especially in the light of a continuous undercurrent in financial and political discussions about a rise in the price of gold to $65—$70 an ounce, nor can we overlook the possibility of unfavorable developments in the foreign situation.

In a word, the market looks uncertain for some time to come and action should be held in abeyance awaiting clarification. Monday—January 11, 1960

★

APPRAISAL OF STATE Of The UNION MESSAGE

By STEWART HENSLEY

★ PRESIDENT EISENHOWER in his State of the Union Message said 1960 "Promises to be the most prosperous year in our history" and topped off this happy picture by predicting a budget surplus of $4,200,000,000 in the fiscal year beginning next July.

But he threw up some caution flags along the rosy route by warning of "nagging disorders" which plague the nation and its economy—inflation, farm problems, labor-management strife and civil rights disputes.

He mentioned only briefly in passing, two afflictions in the international economic field which the Administration has yet to deal with effectively—the $4 billion per year deficit in the balance of payments, and the threat to American exporters inherent in the message concerning the possibility of "getting along better" with the Soviet Union. He also warned of the necessity to maintain a strong defense posture and a tendency to try to minimize the missile lead held by Russia.

Eisenhower's eighth and final State of The Union Message to the Congress was on the whole quite an optimistic document, tinged somewhat with an aura of wistful hopefulness. It blueprinted the year ahead as it might be expected to develop if nothing comes unglued at the seams.

But some of its assumptions are certain to take quite a beating in the political and economic arenas before another President takes over the burden.

Eisenhower, just back from his triumphal "peace crusade" to eleven nations in Asia, Africa and Europe, devoted much of his message to a plea for a united effort to secure world peace and unite the nation. He dedicated his final year in office to an unceasing attack on the world's "calamitous cycle of frustrations and crises" which he said could lead to the "ultimate insanity" of nuclear war unless the cycle is broken.

But it was the budgetary portion of the address which drew major attention, particularly the declaration that the budget for fiscal 1961 would provide for a surplus of $4,200,000,000.

The President's Hopes are High

If he can pull it off, this will be the largest surplus since 1948, when the budget was $8,419,000,000 in the black.

Eisenhower disclosed that the projected surplus is predicated on expenditures of $79.8 billion and indicated revenues of $84 billion. He appears to have a better chance of achieving the anticipated revenue

total than of holding expenditures down to the $79.8 billion figure.

The President was said to be basing his spending figure on the assumption that the Democratic Congress would take some steps which appear highly doubtful, such as increasing postal rates and lowering farm price supports. The President's fiscal proposals will be presented in detail when his budget goes to Congress January 18.

But, meantime, there was a strong feeling that he was overly optimistic.

His revenue anticipation appeared to be based on a rise in personal income of about $20 billion to a record of $400 billion and record corporate profits of about $51,500,000,000. These levels do not appear impossible of accomplishment.

The President disclosed that the 1960 budget is going to end up with a surplus of about $200 million, better than had been anticipated a few months ago. Unexpected payments from Britain and the Federal Reserve banks arrived and there was less decline in tax receipts than had at one time been feared.

Surplus to Attract Spenders

House and Senate leaders, after hearing Eisenhower's optimistic prediction of a surplus of more than $4 billion next year, immediately expressed fear that this would set off an unwarranted drive for tax reductions. Speaker Sam Rayburn moved quickly to forestall any such attempts by a strong declaration that any effort to cut taxes would be very "unwise."

He and other Democrats also cast considerable doubt on the validity of the President's fiscal assumptions.

Another possible result of Eisenhower's surplus prediction was that proponents of an expanded welfare program, including a billion dollar school building program, might take new heart.

This program is staunchly opposed by Eisenhower, who contends that the primary responsibility lies with the local jurisdictions.

The President tried to make it clear that he did not regard any margin of federal income over expenditures next year as a real surplus. He said "I do not feel that any amount can properly be called a 'surplus' as long as the nation is in debt. I prefer to think of such an item as reduction on our children's inherited mortgage."

If he can achieve a $4 billion surplus, it would lower the interest on the Federal debt by about $200 million annually.

Farm Subsidy and Labor Generalities

Eisenhower devoted only a few paragraphs to agriculture in his address. But he made it clear he still stands by the five-point program for 1960 announced recently by Secretary of Agriculture Ezra Taft Benson, which is centered on the idea of easing or eliminating production controls and reducing price supports. The Democrats will not go along with Eisenhower's desire for lowering supports and the President, in turn, can be expected to veto any alternative plan for cutting farm surpluses which proves acceptable to Congress.

This one looks like another stand-off, with the farm question sure to get a thorough going-over during the election campaign.

The President did not propose any new labor leg-

HIGHLIGHTS OF STATE OF THE UNION MESSAGE
Fully Appraised in Text of Story

1. **The 1961 Budget.** "This budget will be a balanced one. Our expenditures will be $79,800,000,000. The amount of income over outgo, described in the budget as a surplus to be applied against our national debt, is $4,200,000,000."
2. **Prosperity.** "A year ago, when I met with you, the Nation was emerging from an economic downturn, even though the signs of resurgent prosperity were not then sufficiently convincing to the doubtful. Today our surging strength is apparent to everyone. 1960 promises to be the most prosperous year in our history."
3. **Inflation.** "We must prevent inflation. Here is an opponent of so many guises that it is sometimes difficult to recognize. But our clear need is to stop continuous and general price rises—a need that all of us can see and feel."
4. **Labor.** "It is my intention to encourage regular discussions between management and labor outside the bargaining table, to consider the interest of the public as well as their mutual interest in the maintenance of industrial peace, price stability and economic growth."
5. **Farm Law.** "Farm legislation is woefully out of date, ineffective, expensive. . . . Once again I urge Congress to enact legislation that will gear production more closely to markets, make costly surpluses more manageable, provide freedom in farm operations, and steadily achieve increased net farm incomes."
6. **Defense.** "America possesses an enormous defense power. . . . It is world-wide knowledge that any nation which might be tempted today to attack the United States, even though our country might sustain great losses, would itself suffer promptly a terrible destruction."
7. **Space.** "Our military program, going forward so successfully, does not suffer from our present lack of very large rocket engines, which are so necessary in distant space explorations. . . . The United States is pressing forward in the development of large rocket engines to place much heavier vehicles into space."
8. **Schools.** "We cannot be complacent about educating our youth. But the route to better trained minds is not through the swift administration of a federal hypodermic or sustained financial transfusion."
9. **Peace.** "Recent Soviet deportment and pronouncements suggest the possible opening of a somewhat less strained period in the relationships between the Soviet Union and the Free World. . . . Whether this is to become an era of lasting promise remains to be tested by actions. . . ."
10. **The Final Year.** "I shall devote my full energies to the tasks at hand, whether these involve travel for promoting greater world understanding, negotiations to reduce international discord, or constant discussions and communications with the Congress and the American people on issues both domestic and foreign."

islation in his address. This obviously was a result of the fact that the steel strike had been settled after behind-the-scenes labors by Vice President Nixon and Labor Secretary James P. Mitchell.

He promised to encourage labor-management discussions away from the bargaining table to head off marathon labor disputes such as that which tied up the steel industry. He said one of the lessons of the eight-month steel strike was "that the potential danger to the entire nation of longer and greater strikes must be met."

Both Eisenhower and Congress appeared willing to meet the labor issue with nothing more than vague generalities in this election year.

Just Talk Against Inflation

The President said everyone was gratified that the steel settlement had resulted in no price increases "at this time" but did not touch further on the inflationary pressures of new labor demands.

However, he did urge in general terms that the nation fight inflation "as we would a fire that imperils our home. Only by so doing can we prevent it from destroying our salaries, savings, pensions and insurance and from gnawing away at the very roots of a free healthy economy and the nation's security."

Bond Interest and Mortgage Money

He said stern self-discipline by every citizen is needed to "prevent steadily rising costs and prices" but made no specific suggestions.

The President again took up the battle for a revision of monetary policy ... a battle which is expected to end again in a stalemate. The President said he would give high priority to a measure to remove "archaic restrictions" from the Treasury's debt management authority. He meant he would renew his request to kill the four and one-quarter per cent interest ceiling on Government long-term bonds.

The Democrats confidently expect to block this request again. The Administration, in turn, can be expected to stop the Democrats from pumping one billion dollars from the Treasury into the mortgage market to relieve the "tight money" squeeze on home builders and buyers.

Generalizations on Aid to Underdeveloped Areas

The President urged the industrialized nations of the free world to join in a cooperative aid program to assist the underdeveloped areas, warning that the United States could no longer continue to bear virtually all the burdens. He called on the now-prospering nations of Western Europe and Japan to accept a bigger share of the foreign aid burden.

Although Eisenhower did not spell out what he had in mind, the United States is proposing at a mid-January economic meeting in Paris that the Members of the Organization for European Economic Cooperation (OEEC) and Japan get together in a new international grouping to coordinate lending and other fiscal aid policies to backward countries.

It is at this same meeting that the United States and Canada hope to get agreement on machinery to police the operations of the European Common Market and the Free Trade Association to insure that they do not injure each other or discriminate against third parties.

In this connection, Eisenhower warned that the strain on the U. S. international balance of payments cannot be permitted to continue and said the situation must be rectified by increasing exports.

But here, as in so many other parts of his address, the problem and remedy were stated only in general terms which obscured the difficulties which become apparent when the details are examined.

Special Aid to India

The United States is going to continue its Foreign Aid Program at about the same rate as last year, the President indicated, with possibly increased attention to India, which is faced with menacing military gestures by Communist China.

The $80 billion budget for fiscal 1961 will, although the President did not say so, include about $4 billion for military and economic aid.

The President, impressed on his recent visit to India by the need for that country to spend more on its military establishment, is said to be ready to consider granting larger economic aid. Prime Minister Jawaharlal Nehru, for psychological reasons, will not accept American military aid but will gladly take economic assistance permitting him to divert his own funds to the military build-up.

Eisenhower recognizes that if Nehru has to divert money and effort from India's Five-Year Plan to military defense, to counter Red China's threats, the economic program could crash, and this could be a major Asian catastrophe since millions in the Far East are waiting to see whether India, with its relatively free and Democratic approach, can match Communist China in improving the living standard of the masses.

The United States is expected to enlist Japan, West Germany and Britain in any major effort to step-up economic aid to India.

The Defense Picture and Space Program

Eisenhower undertook a general effort in his State of the Union Message to reasssure the Nation with respect to its defenses. He did not take note of the specific and recurrent charges that his Administration had been derelict in some fields of military preparations. But he said "America possesses an enormous defense power" and "it is my studied conviction that no nation will ever risk general war against us unless we should be so foolish as to neglect the defense forces we now so powerfully support."

The world knows, according to Eisenhower, that any nation attacking the United States would "itself promptly suffer a terrible destruction."

Some military experts will dispute the President's contention that "our military missile program, going forward so successfully, does not suffer from our present lack of very large rocket engines." He claimed such large rockets are not necessary for military use but only "in distant space exploration." He added that the United States "is pressing forward in the development of large rocket engines to place much heavier vehicles into space for exploration purposes."

In a further effort to quiet the criticism in some quarters of the U. S. Military Program, the President disclosed that in *(Please turn to page 496)*

A CRITICAL ANALYSIS of 30 LEADING BLUE CHIPS

— Under further inflation — under deflation — in the coming market test

By ROBERT B. SHAW

WHILE the exciting electronic and missile stocks have most frequently captured the financial headlines and sparked spirited discussion in recent markets, they are merely the froth on the top. It is the "blue chip" stocks that are the backbone of the investment market, and the type of stock that will become a matter of keen and increasing interest in the months to come.

In this discussion we have selected 30 companies that have the distinction of being rated as blue chips. These 30 companies reported aggregate sales of $59 billions in 1958, or, roughly 18% of all manufacturing sales in this country. Their total assets of $52 billions similarly represent a very substantial proportion of the country's industrial capacity. In terms of both sales and assets 23 of these 30 organizations rank within our fifty largest "industrial" corporations. 16 of these issues are listed in the accompanying table and will be dealt with in this issue—the remaining 14 will be covered in our January 30th edition.

Of importance at this advanced stage of the market—holders of these issues will be thinking in terms of specifics. Are the stocks selling too high in relation to earnings? Are the dividend returns in line with higher and rising money rates? Do the companies occupy strategic positions in their industries? Or, have they achieved sound multi-industrial diversification that minimizes risk in this changing world? Have they substantial foreign assets—and what kind? What investment attractions do these stocks have that do not show up in their financial statements — such as unreported income from foreign activities . . . and hidden assets of various types?

Even among the 16 stocks covered in the present issue there is plenty of variety, so that generalizations would be misleading. In all of them, however, the price-earnings ratios are extremely high and yields meager by all conventional standards, at this stage of the nearset. Thus, the investor's main problem is to decide whether these generous valuations

are justified in the light of the current outlook. To assist in such determination let us pass on immediately to an issue-by-issue analysis.

Having just asserted that stocks are selling at excessive multiples of current earnings, we are under the embarrassment of admitting that the first company, taking them alphabetically by industry, represents a conspicuous exception to the generalization. Like other members of the aircraft industry **United Aircraft** is thoroughly deflated at present. Selling at around 40, a low not previously seen since 1955, the stock capitalizes last year's estimated earnings of $4.25 a share at a modest multiple of 9.4 times. The explanation is, of course, that this leading manufacturer of aircraft engines and propellors has suffered both from the incursion of the jet and the shifting of military emphasis from piloted planes to missiles. These developments depressed sales slightly in 1958 and more severely in the year just ended; but their more disturbing effects are the opportunity they give for non-aviation companies to invade United's normal market, the accelerated obsolescence on existing products, and the heavy expenditures on engineering development not supported by specific contracts. A tangible result of these factors was the recent reduction of the company's quarterly dividend from 75¢ to 50¢.

The current $2 annual rate, adequately protected by earnings, does provide a generous 5% yield. The existing backlog, although down from a year ago and subject to product cancellation, represents roughly a year's business. Both civilian and military users are served and the company has a minor non-aviation market in various instruments and controls. Direct foreign interests are limited to a Canadian subsidiary and a 43% owned affiliate in Germany, but United has also licensed non-affiliated manufacturers in England, France, Italy, Japan and Australia. Despite this limited diversification recent sales have been overwhelmingly to the U.S. government for military purposes, and the risks of such dependence upon a single customer are high. Unexpected political developments in either the local or international scene, could alter the company's outlook radically at any time. All indications are, however, that this industry will continue to grow in strategic importance, and that United will retain its competitive position. The issue will not be immune, however, from a further price decline.

The automobile industry, represented by **Chrysler** and **General Motors,** is in the midst of its most interesting—and perplexing—period of transition in many years. The trickle of foreign imports which the domestic manufacturers dismissed until very recently as an unimportant factor, has now swollen into a torrent of 500,000 cars a year. The tardy answer of the domestics has been, of course, the "compact" car, and the struggle to make up for lost time in this field is as fascinating to watch as any theatrical production. Among important unanswered questions are whether the domestic compacts can halt the invasion by the foreign "midgets," whether American Motors and Studebaker can retain and expand the beachhead they have gained in the domestic industry, and what the form of the standard compact will be. Further in the background we are hearing rumbles of aluminum engines, radically new transmissions, direct fuel injection, adaptation to lower grade petroleum components, and so on. In the year immediately ahead domestic automobile sales are likely to approximate 6,400,000 units (plus 600,000 imports) a level that can only be regarded as moderately satisfactory—depending on the profit margins on the compact car.

Although it has its fingers in many pies, **General Motors** remains primarily an automotive enterprise, with 90% of its sales dollar derived from this industry. **Chrysler** has even less product diversification, but its wholly owned subsidiaries have plants in five foreign countries, aside from its 25% interest in SIMCA, the largest non-governmental automotive manufacturer in France. GM also has a foot planted firmly in the foreign field, including the U.S. import, market through its control of Vauxhall (United Kingdom), Opel (Germany) and Holden (Australia). The outlook for both of these companies is favorable, and yet their stocks look rather generously priced.

"Blue Chip" Building Stocks

In the building industry the $64 question is the level of residential construction in the forthcoming year. As adverse factors, the important 20 to 29 year old household-forming population segment is merely remaining constant at present and declining as a percentage of the total population; secondly, the prevailing high interest rates represent a very heavy burden upon residential mortgages. These factors suggest a decline in housing starts below 1,200,000, compared with about 1,350,000 for the year just ended.

Thus, the immediate outlook for such a leading building equipment manufacturer as **Johns Manville** is not exciting. At the same time it must be recalled that slightly less than 50% of the company's total sales consist of building materials, and even of these more than half go for remodeling rather than new construction. The acquisition a year ago of Libbey-Owens-Ford Glass Fibers also broadened the Company's market considerably. Johns Manville's main asbestos mine in Quebec is estimated to have 75 years' reserves at the recent rate of production, and new deposits are being developed.

Looking a few years further ahead, the building industry is in a more promising position. Within two or three years the 20 to 29 year old population group should start to zoom, as the "war babies" reach adult status. The size of this group is, in fact, estimated at 30,980,000 in 1970, a hefty 39% increase in a mere decade above its present count of 22,260,000. Relative to the market as a whole Johns Manville is selling at a moderate price/earnings ratio, and this looks favorable for retention.

Among the Chemicals

Four leading members of the chemical industry, Allied, du Pont, Union Carbide and Eastman Kodak (the latter sometimes classified under "Amusement"), present a sharply contrasting picture. This industry typically reflects a substantial premium for future growth in its prices, but at present they look unusually high in terms of current earnings. This is particularly true of **du Pont,** at 28.5 times last year's estimated earnings of $9.25 a share, and of **Eastman,** at a corresponding multiple of no less than

Statistical Data on 16 Blue Chips

	Net Sales 1958	Net Sales 1st 9 Mos. 1959	Earnings Per Share 1958	Earnings Per Share 1st 9 Mos. 1959	Recent Price	Price Earnings Ratio *	Current Div.	Div. Yield	Foreign Interests
	(Millions)								
Aircraft Mfg.									
United Aircraft	$1,201.6	$ 796.4	$6.41	$3.46	40	9.4	$2.00	5.0%	43% owned German affiliate; sales to many foreign airlines
Automotive									
Chrysler	2,165.3	1,964.3	d 3.88	2.73	68	27.2	1.00	1.4	25% interest in Simca
General Motors	9,521.9	8,857.1	2.21	2.55	54	18.6	2.00	3.7	5% of total assets abroad; Vauxhall, Opel, Holden fully owned
Building									
Johns-Manville	331.7	278.2	2.82	2.81	49	13.6	2.00	4.0	100% owned British, Mexican cos; 82% owned Belgian concern
Chemicals									
Allied Chemical	635.5	546.6	1.70[6]	1.99[6]	57[6]	22.5	1.80[6]	3.1	Joint venture in Cuba
Du Pont	1,829.2	1,612.0	7.24	6.90	264	28.5	7.00	2.6	"Old" subsid. in Latin America; recent expansion in Western Europe
Eastman Kodak	828.8	621.8	2.57	2.27	107	32.4	2.04	1.9	Sales of foreign subsids. 22% of total; $9 million dividends received
Union Carbide	1,296.5	1,120.9	4.15	4.22	145	25.2	3.60	2.4	Foreign sales 7% of total; over 30 foreign plants
Containers									
American Can	1,037.0	873.2	2.78	2.42	43	15.8	2.00	4.6	Joint ventures in Mexico, Brazil and Venezuela
Owens-Ill. Glass	508.4	426.7	4.82	4.16	103	19.8	2.50	2.4	Plants in Colombia, Cuba and Venezuela
Electrical Equipment									
General Electric	4,120.7	3,142.3	2.77	2.16	98	32.6	2.00	2.0	$53 million equity in non-consolidated foreign subsidiaries
Westinghouse Electric	1,895.7	1,408.4	2.12[7]	1.58[7]	54[7]	24.0	1.20[7]	2.2	Foreign sales 8% of total; many foreign licensees
Foods									
General Foods	1,052.9	512.2[1]	4.42	2.42[1]	105	22.1	2.60	2.4	Plants in England, Ireland, Germany, Brazil and Venezuela
Swift & Co.	2,645.4[5]	2,475.5[5]	1.70[5]	3.20[5]	46	18.4	1.60	3.4	About 5% of earnings from non-consol. subsids. in Western Europe
Household									
Procter & Gamble	1,368.5[2]	N.A.	3.95[2]	1.43[4]	90	22.7	2.20	2.4	Foreign subsids. contribute about 20% of consol. net income
Machinery (Agri.)									
Int. Harvester	1,098.4	1,365.0[3]	2.69	5.00[3]	48	9.6	2.40	5.0	$14 million in dividends contrib. by foreign non-consol. subsidiaries

*—Based on estimated 1959 earnings.
d—Deficit.
N.A.—Not available.
1—6 mos. to 9/30/59.
2—Year ended June 30/59.
3—Estimated, year ended 10/31/59.
4—Quar. ended Sept. 30, 1959.
5—Years ended Oct. 31.
6—Adjusted for 2 for 1 split, payable 1/22/60.
7—Adjusted for 2 for 1 split, payable 2/1/60.

32.4. To be sure, these two issues are on almost every investor's list of favorites. Du Pont is easily the largest and most broadly diversified chemical, and seems to announce some significant new plastics or synthetic discovery at regular intervals. Foreign sales amounted to 9% of the total in 1958, and this proportion should be lifted by several wholly owned subsidiaries currently being established in Western Europe. On the home front the largest outside interests are its 60% control of Remington Arms and 23% in General Motors. The protracted question as to the disposition of its stock in the latter has been temporarily settled by a ruling—which the government may appeal—that it can retain ownership if it renounces any semblance of control over G.M. In an inflationary atmosphere, this stock could readily be held, although partial profit-taking would appear prudent. But, under deflation, the picture would be changed. In fact, it is believed that the price-earnings ratio on these shares is due in a large measure to the belief that Du Pont is likely to be split.

In the photographic field, upon which it remains dependent for about three quarters of its sales volume, **Eastman** is the unchallenged leader. It has also become a major producer of acetate rayon and polyethylene. The company has important plants in the U.K., France, Germany and Australia, and realized total sales of $231 millions by its foreign subsidiaries (mostly wholly owned but not consolidated) in 1958. Aside from a minor dip in 1951-54 Eastman's earnings growth has been unbroken for many years. Even so, its current appraisal should give pause to holders and new purchasers.

Allied Chemical is probably the most staid in this group, but enjoyed a sharp earnings recovery to about $2.50 a share for 1959, terminating a three-

year decline. Concentrating as it does upon heavy chemicals, especially dyes and coal-tar derivatives, Allied is less well-known to consumers than du Pont, but has increased its diversification considerably in recent years. Aside from a small joint venture in Cuba no plants are owned abroad but sales are conducted through an international division. Substantial investments are also held in U.S. Steel, Owens-Illinois Glass, American Viscose and Libbey-Owens Ford. At 22.5 times its price/earnings ratio is low for the industry, but still cannot be considered undervalued because the company has gone through a period of readjustment and needs new seasoning.

Union Carbide's traditional specialty has been industrial gases used largely in cutting and welding metals, but it has expanded its product range broadly and occupies the status of second largest component in its industry. Most of its products are unfamiliar to consumers; conspicuous exceptions are Eveready flashlight batteries and Prestone anti-freeze. Industrially, it has made great strides in the production of polyethylene film, increasing production in 1959 by more than 75 million pounds over the preceding year, to a total of over 300 million pounds. This aggressive and dynamic company has a foresighted research policy which is helping to round out its line of products. A new liquid hydrogen plant has just been opened at Tonawanda, New York, and another plant is being built at Torrance, California, mainly to provide the National Aeronautical and Space Administration with tonnage quantities of liquid hydrogen for missile activities. Foreign sales comprise about 7% of the total. Earnings growth has been accomplished more in spurts than steadily, and 1959 should witness a strong recovery to about $5.75 a share, a new peak. Here, again, at the indicated price/earnings multiple of 25.2 the stock is at a level where partial profit-taking should be considered at this time.

The investor who has held any one of these four excellent stocks for an extended period must count himself fortunate, but new purchases are not justified at current prices.

More Blue Chips

American Can is still widely regarded as the leader in the container industry, although Continental has become slightly larger in terms of sales since its recent acquisitions. Without quite matching Continental in the aggressiveness of its diversification program, American has acquired important interests in paper containers, plastic "bottles" and collapsible tubes. It also participates in jointly owned enterprises in Venezuela, Mexico and Brazil.

While the container industry should expand with the growing trend for the use of packaged products of all kinds, the major can manufacturers always face potential sharp competition in the form of "do-it-yourself" tendencies by the large food packers, whose volume would easily justify their own can-making subsidiaries (Campbell Soup, for example, is the third largest can manufacturer). This situation limits profit margins rigidly. Accordingly, American Can cannot be regarded as a growth issue, but is currently attractive for its better than average yield and moderate price/earnings ratio.

Owens-Illinois, the largest manufacturer of glass containers, has also expanded horizontally by its acquisition of multiwall bag, corrugated paper, plywood and plastics divisions; additionally it holds a 3% interest in Continental Can, 1½% in Monsanto Chemical and 32% in Owens-Corning Fiberglas. Although it also makes TV bulbs and insulating glass, containers account for about three quarters of Owens' total sales volume. This company has suffered active competition from fibre containers (for milk), cans for beer and soft drinks) and plastics (for perfumes and household requisites), but has nevertheless managed to find sufficient new markets to maintain a moderate rate of growth. At present the issue looks a little too generously priced, in the light of the market outlook.

Occupying a position that is unique, **General Electric** is not merely the undisputed leader of the electrical equipment industry but can probably qualify as the most broadly diversified single-package investment on the market. The company was described in detail in the article "Multi-industry Diversification" in the December 19 issue of the *Magazine of Wall Street*.

Westinghouse Electric falls considerably behind GE in size and is undoubtedly a little lower in quality, but against any other yardstick is an outstanding company. It is thoroughly diversified in both consumer and industrial lines, has become an important manufacturer of jet aircraft engines, and even leads GE in the atomic energy field. It is probable that Westinghouse's 1959 earnings ended up only narrowly above the $2.12 per share (adjusted) reported for 1958, but 1960 is expected to show a more substantial gain. This should justify some increase in the current $1.20 dividend representing a meager yield of 2.2%. As befits its junior role Westinghouse sells at a considerably lower price/earnings ratio than GE, but both of them are high and postponement of new purchases is indicated despite the excellent outlook for the two companies.

Within its own industry **General Foods** is aptly named; this outgrowth of a small dietary enterprise is now the largest manufacturer of packaged foods of all kinds. Growth has been accomplished both by internal expansion and the acquisition of successful outside lines, such as Jell-O, Birdseye Frosted Foods, Log Cabin Syrup, Walter Baker Chocolate, and so on. The company is also, with its Maxwell House brand, the largest domestic coffee roaster. Although coffee accounts for about 40% of sales, remaining business is so well diversified that no single product line represents more than 15% of sales. The company has recently penetrated into foreign markets in Western Europe, Japan and Latin America.

While food stocks are ordinarily esteemed primarily for their stability General Foods has shown a very creditable rate of growth, and nothing indicates that this is likely to be checked in the early future. The company's constant expansion has caused it, however, to follow a very conservative dividend policy, and investors emphasizing income will not be attracted by its meager 2.4% yield. At 22.1 times, the price/earnings ratio is nearly double the earnings multiple for the same issue which has prevailed in the past.

The meat packers, among whom **Swift** is by far the largest component, provide an exaggerated illustration of some of the *(Please turn to page 486)*

WHY 1960 IS A TIME FOR CAUTION in the BOND MARKET

—A professional analysis by our expert (who so accurately forecast the 1959 bond market in our Preview issue of January 17, 1959)

By MICHAEL STEPHEN

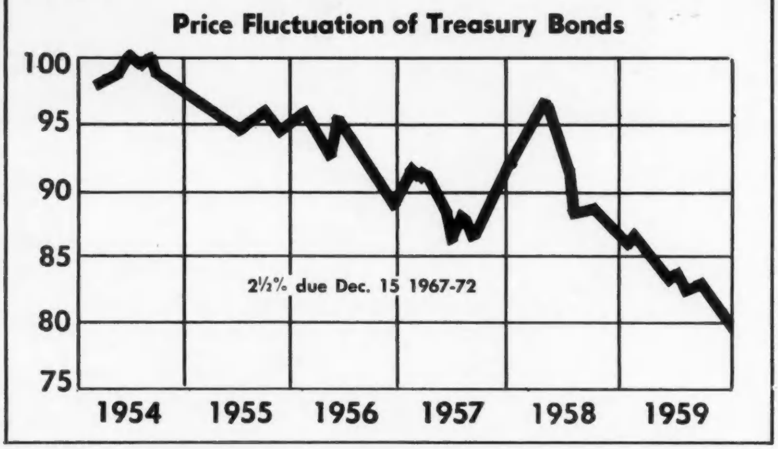
- **Various influencing forces to be operative in the bond market**
- **Factors of importance that need to be considered in the business outlook —in foreign developments—in government and political activities— credit and loan position of banks**
- **Trend of money rates at home and abroad—doubt that FED will ease money rates**
- **The time to buy bonds if you are an investor—or capital-gains-minded speculator — bonds suited to various income categories—and purchase levels recommended**

THE question whether it is time to buy bonds again has come up with increasing frequency in recent months. It is not hard to understand why this should be so. While stock prices have been rising to record levels, bond prices have been falling almost continuously for more than a year and a half. By December, one issue of the Treasury's 2½% bonds due in 1972 had fallen to 79¼ (yield 4.65%), the lowest price on a taxable Treasury bond in more than sixty years. Shorter-term Treasury notes have been available to yield 5% or better, the best return on this type of paper since 1920 or 1921.

The temptation is to assume that bonds are on the bargain counter. *But there are good reasons for caution. The bond market is full of pitfalls for the unwary. One need only look at some of the losses incurred as a result of premature purchases of bonds in recent years.* For example, only little more than a year ago a respected investment authority told its clients that bonds should be bought because their prices had fallen sharply while stocks had moved up too fast and too far. Investors who bought as a result of this advice lost 60 or 70 points per $1,000 bond and speculators who operated on margin saw their capital wiped out. In actual fact, as Chart A indicates, bonds continued their downward move (as was predicted in our article last January on *The 1959 Bond Market*).

Perhaps the saddest experience in bonds in recent years, if not for all time, involved the ill-fated Treasury 2⅝s due in February 1965. They were initially offered in June 1958, around the top of the bond market's big rise, and the general expectation was that they offered rich capital gains. Everyone fought to get them, from the investment experts of the great financial institutions to the greenest amateur

TABLE A



speculator. Now they are freely available at about 89, some 11 points below issue price. Big banks and investment funds show red ink in their portfolios; the individual speculator was wiped out long ago. Such are the penalties of ill-considered action in the bond market.

It is never easy to forecast the future, as any investor soon learns out of his own experience. But the bond market is particularly risky because of all the factors involved: the business outlook, the willingness of people to save, the state of inflation psychology, Federal Reserve monetary policy, the commercial banks' money positions, the outlook for the Federal budget and Treasury financing needs, and the liquidity position of business.

The Importance of the Business Outlook

The business outlook is important to the bond market for two reasons. It is the pace of business activity which determines how much money business has to raise at the banks, in the bond market, and by new stock issues. The record shows that when business activity is high and rising and optimism widespread, businessmen build up inventories, add to existing assembly lines, and construct new plants. All this takes financing and bank loans to business, new issues of corporate bonds, and stock flotations almost invariably increase in periods of prosperity, putting increased pressure on the supply of funds and depressing bond prices.

Moreover, the pace of business activity is a most important determinant of Federal Reserve credit policy influencing the supply of money and credit. The Federal Reserve serves as a balance wheel in the economy. It makes money plentiful and cheap to encourage spending when the economy slows down in recession. When prosperity returns and people are tempted to overborrow, the Federal Reserve shifts its policy and restricts credit; the idea is to make borrowing more difficult and more expensive so that the upward surge of business will be slowed to a more sustainable rate of advance.

The natural consequence is that periods of prosperity almost invariably bring tight money, high interest rates, and lower bond prices. To get lower interest rates and higher bond prices, you almost have to expect a recession. Few economists would predict that a recession will hit the American economy within the next six months.

On the contrary, almost everyone expects the U.S. economy to surge forward to new peaks in 1960 as the losses of the steel strike are made up. Rebuilding of depleted steel inventories is expected to insure that the bellwether steel industry will operate at more than 90% of capacity throughout the first half of 1960. Moreover, when inventory rebuilding spends its force, we may well see a new upsurge of plant and equipment spending. At the very least, business will be catching up on capital expansion programs which were postponed or rescheduled in 1959 because of uncertainty over the steel situation or because of actual difficulties in completing or delivering equipment already ordered.

Meanwhile, consumer confidence is high, and with record personal incomes, people have money to spend. All signs point to a record total of consumption spending in 1960, enlarging markets and encouraging inventory stocking and capital expansion. With the stimulus of new compact cars, Detroit is figuring

TABLE I

Selected Treasury Bond Prices

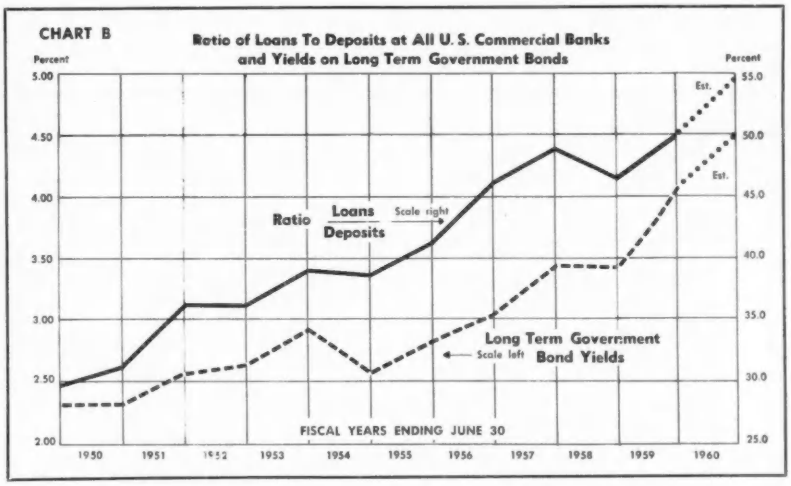
Issue	April 1958 High Price	April 1958 High Yield	December 30, 1959 Price	December 30, 1959 Yield
2½'s due 12/15/67-72	97¼	2.72%	80	4.53%
4's due 10/1/69	110⅜	2.92	94⅜	4.70
3¼'s due 6/15/78-83	103⅛	3.04	83⅞	4.34
3¼'s due 5/15/85	101½	3.12	83¾	4.30
3½'s due 2/15/90	106⅞	3.16	85¼	4.37
3's due 2/15/95	99	3.04	80¼	4.04

TABLE II

Current Prices and Yields on Selected Corporate Bonds

Rating	Issue	Price	Yield
Aaa	Bell Telephone of Pennsylvania 5⅜'s due 12/1/94	102⅝	5.21%
Aa	Consol. Edison of N.Y. 5¼'s due 12/1/89	99⅞	5.26
A	Columbia Gas System 5⅜'s due 10/1/60-84	100⅞	5.31
A	Georgia Power 5¾'s due 9/1/60-89	106	5.34
Baa	Pacific Power and Light 5¾'s due 9/1/60-87	103½	5.50
Ba	Pennsylvania Railroad 5's due 12/1/68	94¾	5.76

on selling 6,500,000 domestically produced cars, even after allowing for the sale of some 500,000 imported cars in the U.S. The television industry, which had a banner year in 1959, is beginning to report profits on sales of color TV as people upgrade their buying. Even in the one conspicuously lagging sector of the economy—home building—the trouble is the lessened availability of credit more than lack of demand for houses. And the decreased credit availability simply means that money is being bid away from home construction as business rebounds. The economy, like any family, is spending less in one area to be able to spend more in another.



In light of all this, it may not be overoptimistic to look for a generally high level of business activity throughout 1960.

The Influence of Foreign Developments

No appraisal of the American business and credit outlook can be complete without considering the worldwide boom which is underway abroad. In 1958 and 1959, we were influenced adversely by foreign developments; our short-term indebtedness to foreigners rose sharply and billions of dollars of our gold flowed abroad. But we are coming into a period when more encouraging aspects may predominate. With foreign gold and dollar reserves touching new peaks monthly, relaxation of restrictions against American goods is inevitable. Moreover, as economic expansion brings higher living standards to more and more of the world's peoples, the demand for U.S. goods should benefit.

While the developing boom abroad will deepen and extend U.S. prosperity, its implications for interest rates and bond prices here are bearish. The strides made in achieving convertibility of the world's major currencies have created a world money market once again. *Tightening money and falling bond prices in any major nation once more tend to be transmitted from one country to another. In this background, the significant fact is that the world drift of interest rates is upward; of bond prices, downward. Since early last August discount rates have been increased by the central banks of Germany, Denmark, the Netherlands, Belgium, and Japan.*

The United Kingdom is already feeling the impact of tightening money abroad, in the form of increased pressure on the pound sterling. British funds have been drained out of the country by high interest rates in Toronto, Frankfurt, and New York. At the same time, the rise of industrial activity in Great Britain has sharply increased the domestic demand for money. The Governor of the Bank of England has already publicly stated that the surging advance of bank loans in the United Kingdom (up 34% in the year ended November 18) needs careful watching. The conclusion is that it is only a matter of time until the 4% British discount rate is advanced to bring it into line.

Meanwhile, U.S. bond rates, ranging from $4\frac{1}{4}$ to $4\frac{3}{4}$% on intermediate and long-term Treasury issues, are already low in comparison with many foreign rates. ► The *German government* paid more than 6% in November to borrow for twelve years. ► The *Canadian Government* paid around $6\frac{5}{8}$% early last fall on two-year three-month obligations; long-term Canadian government bonds currently trade to yield $5\frac{1}{2}$ or $5\frac{3}{4}$%. ► In the United *(Please turn to page 488)*

TABLE III

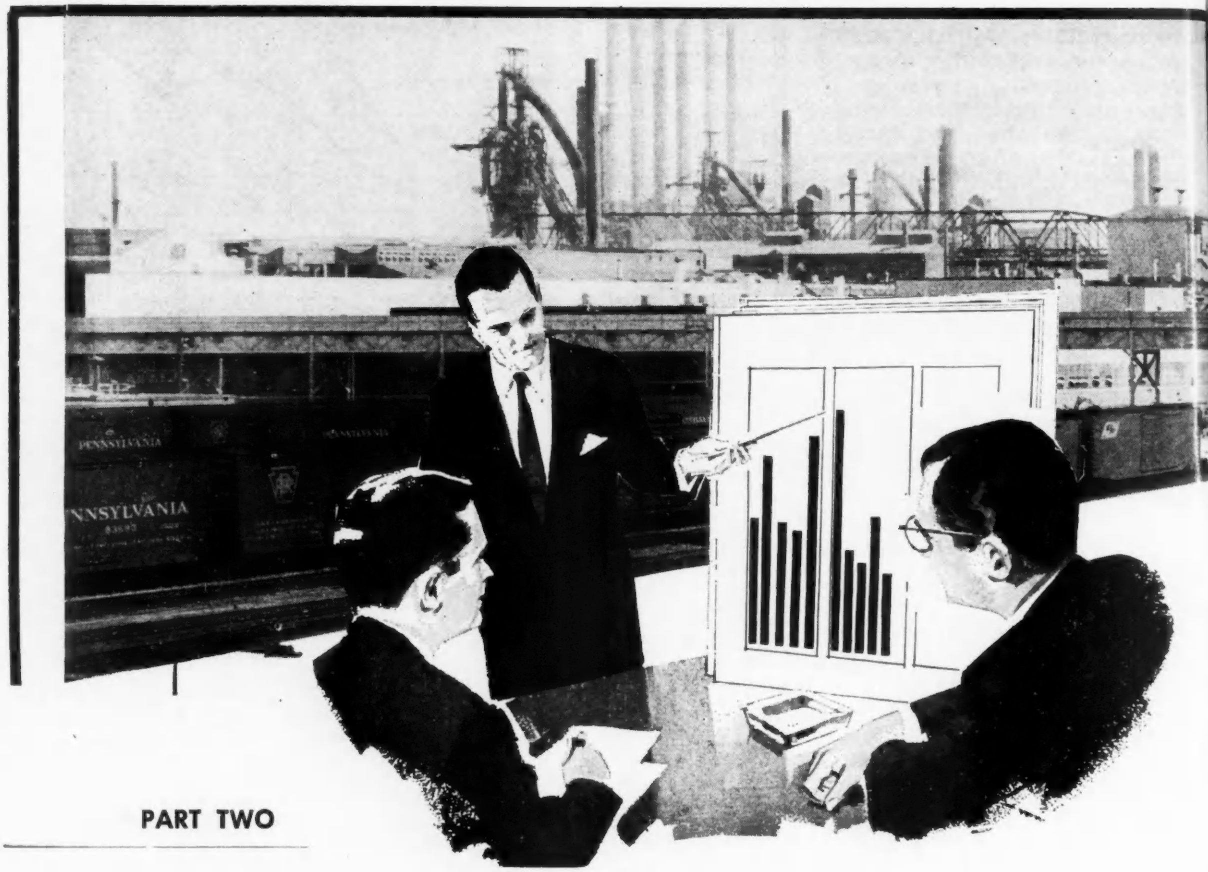
Selected Tax Exempt Obligations

Rating	Issue	Price	Yield
Aaa	New York State 4½'s due 1/1/64		3.15%
Aaa	Maryland 2⅜'s due 5/1/62		3.25
Aa	Delaware 2.60's due 3/1/67		3.75
Aa	Massachusetts 1.60's due 9/1/63		4.00
A	Mount Lebanon Pa., School Dist. 2⅛'s due 5/1/76		4.20
A	New York City 2.60's due 5/1/69		4.20

TABLE IV

Selected Canadian Government Bonds

Issue	1959 Price Range High	1959 Price Range Low	Current Quotation Price	Current Quotation Yield
3¾'s due 9/1/65	95⅜	87¼	90	5.82%
2¾'s due 6/15/68	86½	82	83¼	5.21
4¼'s due 9/1/72	96	85¾	87½	5.64
3¾'s due 1/15/75-78	88¼	79	79¾	5.54
4½'s due 9/1/83	96	83	85¾	5.59
3¾'s due 3/15/96-98	83¼	78	78½	5.02



PART TWO

1960 OUTLOOK FOR LEADING INDUSTRIES

— *With individual analyses by specialists in each field*

Edited by WARD GATES

IN Part I of this report, which appeared in the last issue of this magazine, we pointed to labor strife as the key issue for the new year, and the single most important determinant of business activity in the months ahead.

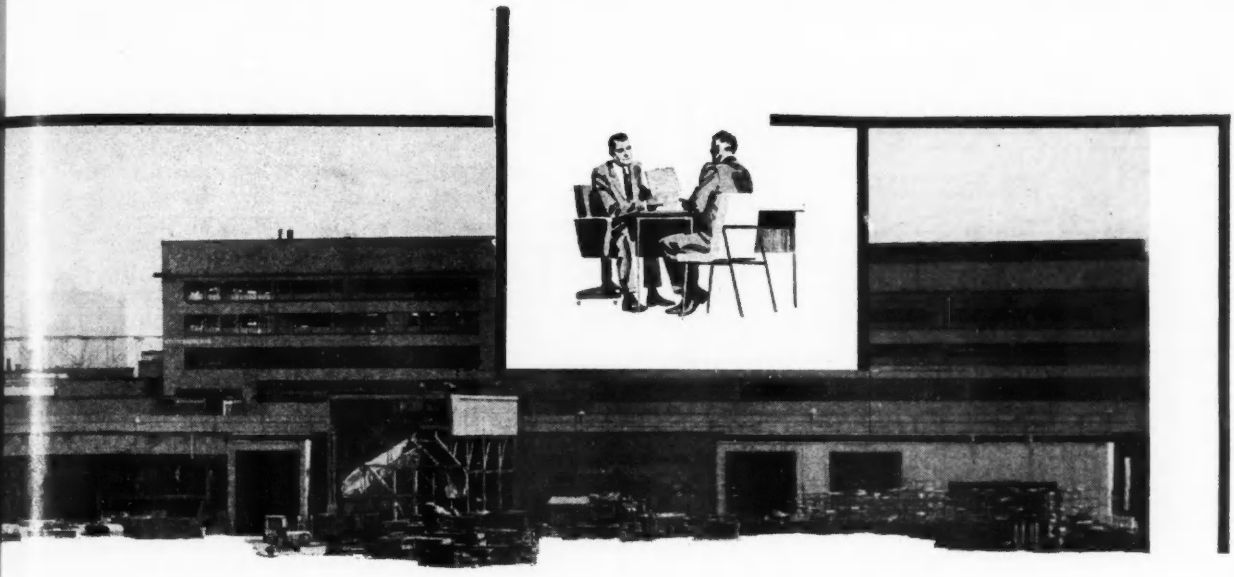
But, with the steel strike settled, the possibility of a railroad walk-out averted, and a new ameliorating atmosphere in labor circles, there is little doubt but that the first half of 1960 can be one of great activity.

Under these circumstances, it is forecast that steel production would run at the annual rate of about 120 million tons, and the auto industry would be hitting on all cylinders, with production well above the 5,500,000 cars produced in 1959. Such a high level output in these two dominant industries cannot help but accelerate industrial and business activity throughout the economy.

Hence, individual industrial patterns for 1960 can now be examined mainly without the overriding handicap of the unsettling influence of a destructive labor outlook, nor the distortions of political maneuvering that would enter into Congressional legislation dealing with labor-management relations in a Presidential election year.

AIRCRAFT—By Harold M. Edelstein

After years of leading the way among growth stocks, this industry performed poorly in 1959. The reasons are not hard to discern. Defense spending remains at record peacetime levels, and will probably continue at close to $41 billion a year for some time



to come. But the swing to missiles has affected the industry's profit margin and has virtually broken its hold on the lion's share of defense funds, for today, electronic, chemical, tire and rubber companies are able to compete effectively with aircraft manufacturers for contracts on missile components, while aircraft procurement itself is moving out of its expansion phase.

An indication of what has happened to the aircraft industry as far as defense contracts are concerned can be seen in the employment figures. Whereas the workers in the aircraft industry comprised over 90% of the personnel engaged in the production of military aircraft, today only 40% of the working force are required for the production of missiles per se, and the rest are employed in those other companies contributing to the missile program.

Despite this radical change, however, the aircraft companies are far from moribund. Deliveries of military aircraft will rise this year, and fulfillment of commercial jet orders will be at an all-time high. Moreover, some of the principal producers, such as Douglas and Boeing, will have smaller charge-offs for jet development to contend with this year, making for higher profit margins. For investors, however, the aircrafts will remain unattractive largely because they still retain growth stock premiums in their prices—premiums not warranted by the present unsettled state of the industry. Stocks in this group must be individually weighed for their diversified commercial as well as defense activities. Curiously, it is the neglected makers of small civilian craft, such as Beech, Cessna and Piper, that have outperformed the market and the industry in recent months. This process will probably continue in the year ahead. (See analysis of these companies in this issue.)

AIRLINES—By Sutter Jackson

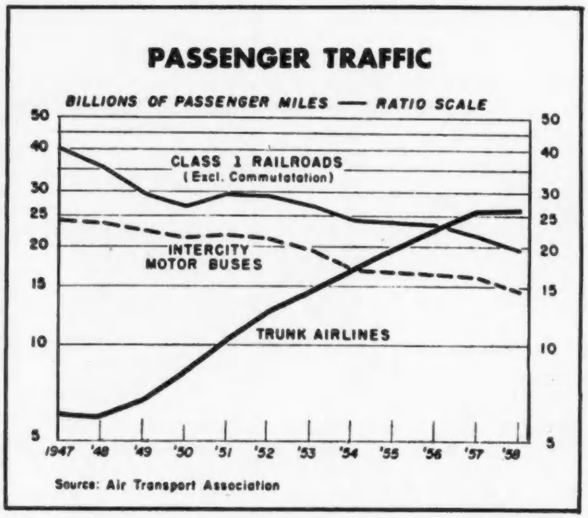
Jet aircraft has given a substantial lift to the major airlines. Load factors have improved to an average of 90% from a pre-jet figure of only 60 to 65%. The result has been sharply increased revenues. In the first half of 1959, for example, trunkline revenues were almost $30 million compared with approximately $8 million in the same period a year earlier.

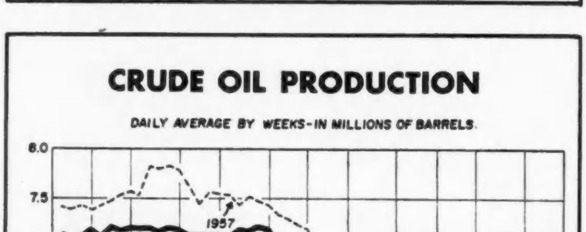
Preliminary year-end estimates indicate that U. S. air carrier traffic and revenues broke all records in 1959. However, the estimated 1959 profit margin of 2.9% on sales and 6.5% return on investment indicate that the airlines industry is still far from being out of the woods. Much rests upon the C.A.B.'s final decision in the General Passenger Fare Investigation, in which the examiner has recommended an average 10.6% return on investment for the industry.

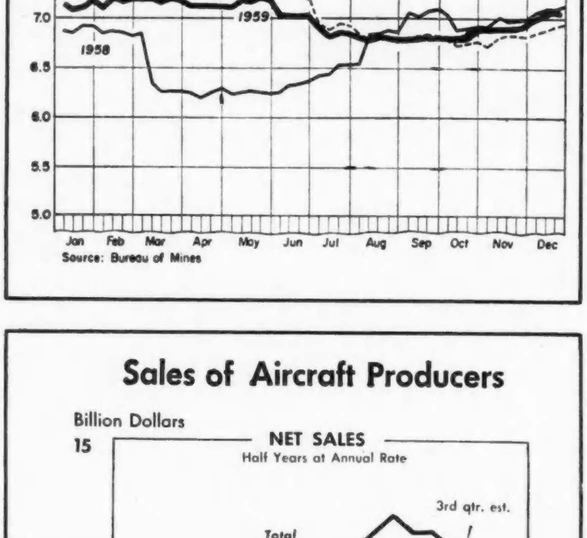
However, in the year ahead, there are signs of new problems. Competition is sharp, and, as more airlines receive more jets, it appears likely that the increase in seats will (temporarily, at least) outstrip passenger growth. The novelty of jet transport, except for long trips, seems to be wearing off, and a gradual drop in load factors has already been observed. Where passengers were insisting on jet accommodations, many will now take what is available. And where the novelty compensated for the inconvenience of long taxi or bus trips to and from hinterland airdromes, these have now become annoyances that are cutting into the eagerness for jet travel.

Nevertheless, there is no doubt that the jets have more than lived up to expectations. The practical result, of course, is that those carriers that started first in the jet race have a big jump in paying off their massive equipment obligations. By the end of 1960, however, most lines will have their jet programs well under way and true competition will have set in once more.

All these factors will probably hold down revenue growth for the industry in 1960. (Moreover, they may not have a repeat of the 11% rate increase granted in 1959.) Within the industry, however, there will be a shift of earnings as the slow start-







ing operators obtain delivery of their jets. 1960 will be another inconclusive year for the airlines.

DRUG INDUSTRY—By R. C. Erlingsen

The drug industry optimistically looks for gains in 1960 similar to the 7% in sales and slightly less in earnings estimated to have been recorded in 1959. Price weaknesses should continue to be more than offset by the flow of higher-margin new products. The ever-increasing risks of product obsolescence will foster record research expenditures, not only a necessity to maintain competitive position, but the best source of potential future earnings.

Several widely publicized probes into prices and profits have aroused considerable public resentment. It appears unlikely that direct legislative control over the industry will result, although a consent decree permitting broader cross-licensing of certain formulae might be effected. Industry observers believe, however, that its members will practice stricter self-policing of prices.

These investigations are expected to last at least into Spring with other product groups yet to come under the spotlight. Further adverse publicity is sure to accompany them and drug shares may remain under pressure for several months. While wholesale liquidation is not advocated, neither are drug stocks believed to be generally at "bargain counter" levels.

Investors, therefore, should bear in mind that drug issues sell at exceptionally large multiples of earnings, and are consequently highly vulnerable to sudden changes in profit prospects. Contemplated purchases should be carefully selected and a dollar averaging program might prove most intelligent.

FARM EQUIPMENT—By John D. C. Welden

The nation's farm equipment producers have enjoyed excellent prosperity in the last two years, part of it during the recession that shook up most major industries. This resulted from the need to replace farm workers with machines, and the buying was in a large measure made possible by the new and efficient methods that credit organizations have developed for helping the farmer purchase major equipment on time.

However, 1960 appears less dynamic. Farm income has begun to slide again, indicating substantial cutbacks in spending during the coming summer, first, because much needed equipment has already been acquired, and, secondly, because farm income is now in a moderate down-trend, which will psychologically cause the farmer to economize.

While this condition may cut into profits, it is well to remember that the farm equipment companies have been heavily diversifying into other fields in order to stabilize the traditional cyclical nature of the farm equipment industry, and has also been helped by the substantial progress made toward reducing costs in recent years. Furthermore, various companies are making excellent progress abroad, constantly expanding markets and achieving geographical diversification that will add to their profits base in hidden earnings since companies with plants abroad are not obliged to declare their profits for tax purposes.

Most shares have reacted considerably in the past

month, but the uncertainty of the stock market suggests a policy of deferring any commitment in this field pending clarification.

MERCHANDISING—By Erik I. Morton

Department store shares have been in good demand in recent months, reflecting the exceptionally high level of consumer spending even during the steel strike. There is no doubt that this is the result of the high level earning power among the citizens of this country, which has produced an affluent society able to maintain the standards of a middle class economy. This, supported by welfare and unemployment benefits, also helps to maintain the high level of consumer buying.

We therefore expect retail trade to hold its own in the year ahead, but most of the stocks in this category have long since discounted their prospects for the year ahead. Price-earnings ratios are at all-time highs, and yields on these shares have fallen well below current money rates. Hence, despite their excellent business outlook, selectivity must enter into buying, as most of the shares cannot be considered a purchase at the present time.

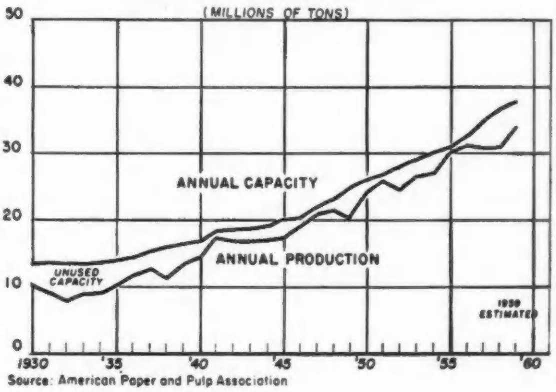
NON-FERROUS METALS—By William F. Boericke

Copper, aluminum, zinc and lead enter 1960 with good prospects for larger demand and firm prices, at least through the first half of the year. Taking these metals up in order, **copper** at present is in extremely tight supply. The prolonged strike at U. S. mines has resulted in drastic reductions in producers' stocks and immensely improving the statistical position of the metal. There is little doubt that call for copper will be insistent to refill pipe lines and rebuild inventories which have been virtually depleted. No relief is expected before the end of th first quarter at least. Even with the start-up of mining operations, there will be the normal cycle of 60 to 90 days before refined copper will be available for the market. The price of copper appears firmly established at 33 cents a pound by the producers, with smelters asking 35 cents for February delivery. While higher prices no doubt could be obtained, the producers appear determined there shall be no repetition of 1956 when the price soared above 45 cents, with consequent loss of markets followed by a severe price decline. Continental and British consumers are hesitant over reaching for copper above £260 (32½ cents) and believe that £240 (30 cents) represents a fairer figure.

The price trend in the second half of the year is more debatable. Little doubt exists there is an excess of production capacity which if fully employed, could result in a copper surplus developing. Much new production will soon be on the market, notably giant Toquepala in Peru and stepped-up output from Chile. In consequence, it is expected that some sort of curtailment will be required if the 33 cent price is to be maintained. This may not be so easy to accomplish because of the international character of the copper industry. *Failure to curtail production later in 1960 could result in the copper price slipping back to 30 cents a pound.*

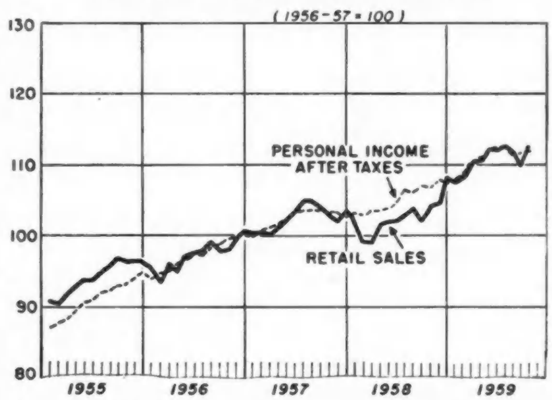
Evidence that speculators expect this is shown by the wide disparity between the price of cash copper and metal deliverable six *(Please turn to page 492)*

PAPER AND PAPERBOARD CAPACITY AND PRODUCTION

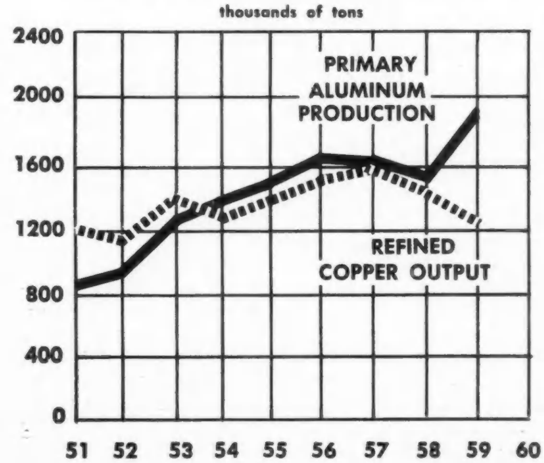


Source: American Paper and Pulp Association

RETAIL SALES AND PERSONAL DISPOSABLE INCOME



OUTPUT OF NON-FERROUS METALS



Inside Washington

By "VERITAS"

CUBA, thorn in the side of the State Department and all concerned with Latin-American relations, is not due for the "spanking" advocated by many, namely, a curb on sugar imports from the Island Republic—all of them bought at two to three cents per pound above the world price under present law. Cuba's quota to the United States is now about one-third our national consumption and approximately one-sixth higher than the quota for U. S. producers. Cost of this largesse now runs about $159 million annually. Periodically, Congress examines the sugar situation and allocates among the sugar-producing nations a percentage of the sugar to be imported by this country. Despite the fact that Cuba, under the direction of Fidel Castro, has been seizing American properties and trying to draw Latin Countries away from the West, our State Department will take a soft attitude and ask that Congress take no action against Cuba when—next Spring—it reviews the Sugar Act. The situation is grave. Either we insist that Cuba respect our property rights there, or we quit cold in our sugar support of the Caribbean Republic. If we don't get tough, we only engender increasing disrespect for the United States all over Latin America.

WASHINGTON SEES:

Vice President Nixon's success in negotiating a settlement of the steel strike has definitely established him as a man who can successfully cope with internal problems dangerous to the national economy and welfare. This is stressed by his friends and conceded by political opponents.

Immediate effects of the settlement, for which the White House and Congress are grateful, will be the avoidance of hasty and ill-conceived labor legislation which could bring an end to free collective bargaining, plus strait jacket controls of both management and labor which, in the final analysis, would amount to wage-hour-price controls for just about all business and industry.

Definitely in the making was compulsory and binding arbitration in major labor disputes, more significant roles for Federal mediation in labor-management broils, tighter Congressional supervision—rather, "observance"—of Administration handling of top labor disputes.

These rigid controls and observations have been eliminated. The Congress will by-pass all controversial labor legislation in the Second Session.

There will be investigations, yes. But they will be careful, methodical and not prodded by the heat of public indignation. Out of them will emerge—perhaps two years hence—a legislative program tempered by good sense and sound judgment.

TAX REDUCTION, presumably "out the window" because House Ways and Means Committee says all revenue code revision is to be deferred another year, is not now an improbability—barring war, of course. The Committee has "taken a stand," but influential members do not exclude "some" revenue revisions, including realistic depreciation allowances for production machinery and facilities, scaling of the progressive personal income tax rates, and a "small cut" in corporate rates. Possibilities are remote, true, but they are having behind the scenes consideration. Educated guess remains, however, that any cuts are highly improbable.

INTEREST ceiling on long-term Federal bonds—five or more years—will be to the front early this year. President will again ask removal of the present 4¼ percent ceiling, but Senate Democrats are certain to turn a deaf ear. White House feels a 5 percent ceiling would greatly facilitate management of the public debt. Privately, opposition forces feel the same way, but holding the rate down has popular political appeal, according to one highly placed Democratic dignitary. In the meanwhile, monthly sales of Series "E" bonds continue to run far behind monthly redemptions—privately owned savings banks, building and loan associations, continue paying higher interest rates, with added convenience of easy, fractional withdrawals.

As We Go To Press

Unidentified undersea craft prowl Western Hemisphere waters in mounting numbers. It will be officially denied by Navy and the White House, but sources which cannot be gainsaid confirm it. They have been detected from Labrador to Cape Horn, from the cape to Alaska. And sonar devices have established that some may be atomic powered — capable of cruising at great depths and for long period of time. It may explode our complacency, engendered by our having the World's largest atomic undersea fleet. The situation may bring considerable revision in Navy spending during the rest of the fiscal year. Presently ticketed for anti-submarine warfare is around $2.2 billion. The figure could well go to $6.6 billion before June 30 through the simple expedient of transferring other funds to "research and development."

Russian submarine fleet, now estimated at 500, could be greater menace than their boasted assembly line production of Intercontinental Ballistics Missiles to be launched from land bases. We know where most of these are, could knock out a major portion with atomic armed aircraft, but fact remains we have not developed a system which would locate and destroy the missile-carrying submarine. Underseas superiority may partially account for Khrushchev's recent declaration that Russia will, unilaterally, reduce her land armaments. In the meanwhile, our Navy will proceed with construction of three conventionally powered submarines, the BARREL, BLUEFISH and BONEFISH. They will be the last of that type; from here on out our subs will be atom powered.

Veterans' lobbies, relatively quiet during the First Session of Congress, are readying new demands — among them free medical care and hospitalization, regardless of the individual's financial capacity to pay for private services; further increases for those now on the rolls, plus a minimum $100 per month for ex-service men past 60 or 65, also regardless of actual need for the money; tax-exempt, of course. Admittedly, the ex-servicemen have no economic or moral justification, "but this is an election year, let's make the most of it." It is flatly stated that such legislation will encounter an emphatic Presidential veto which will be sustained by both Houses of Congress. Estimated cost of the $100-per-month plan runs in excess of $3.6 billion per year.

Postal rate increases again to be asked. A theoretically balanced budget will be partially predicated upon hikes estimated to bring in $350 million annually. Postal rate hikes are election year impossibilities. Further, there is growing Capitol Hill dissatisfaction with postal service, definitely deteriorated in the past two years. No direct blame is placed on Postmaster General Summerfield at this moment, but there is mounting feeling that he is giving too little time and attention to his primary job — delivering the mails — and too much to censorship and politics.

Democrats who returned to the Capitol prior to Second Session of Congress are far from optimistic about the Party's future. A year ago, fresh from their sweeping gains, they surged into Washington with an exuberance which could be termed "cocky." The successful string of Eisenhower vetoes, coupled with a grass roots demand for fiscal responsibility — plus labor reform — served to curb a lot of the enthusiasm of just a year ago. In the meanwhile, with a booming national economy and growing signs of a real thaw in the cold war, a thaw that could lead to a stable Peace, Democrats are no longer so sure the Party will have issues with which it can capture the White House in November. Some of the more pessimistic feel Democratic majorities will be severely whittled, but not lost, in both Houses of Congress. Compounding the Democrats woes in jockeying for political advantage are the four Senators seeking

the Democratic Presidential nomination, and the Session may be the shortest in seven or eight years as adjournment before July 11 is aimed at.

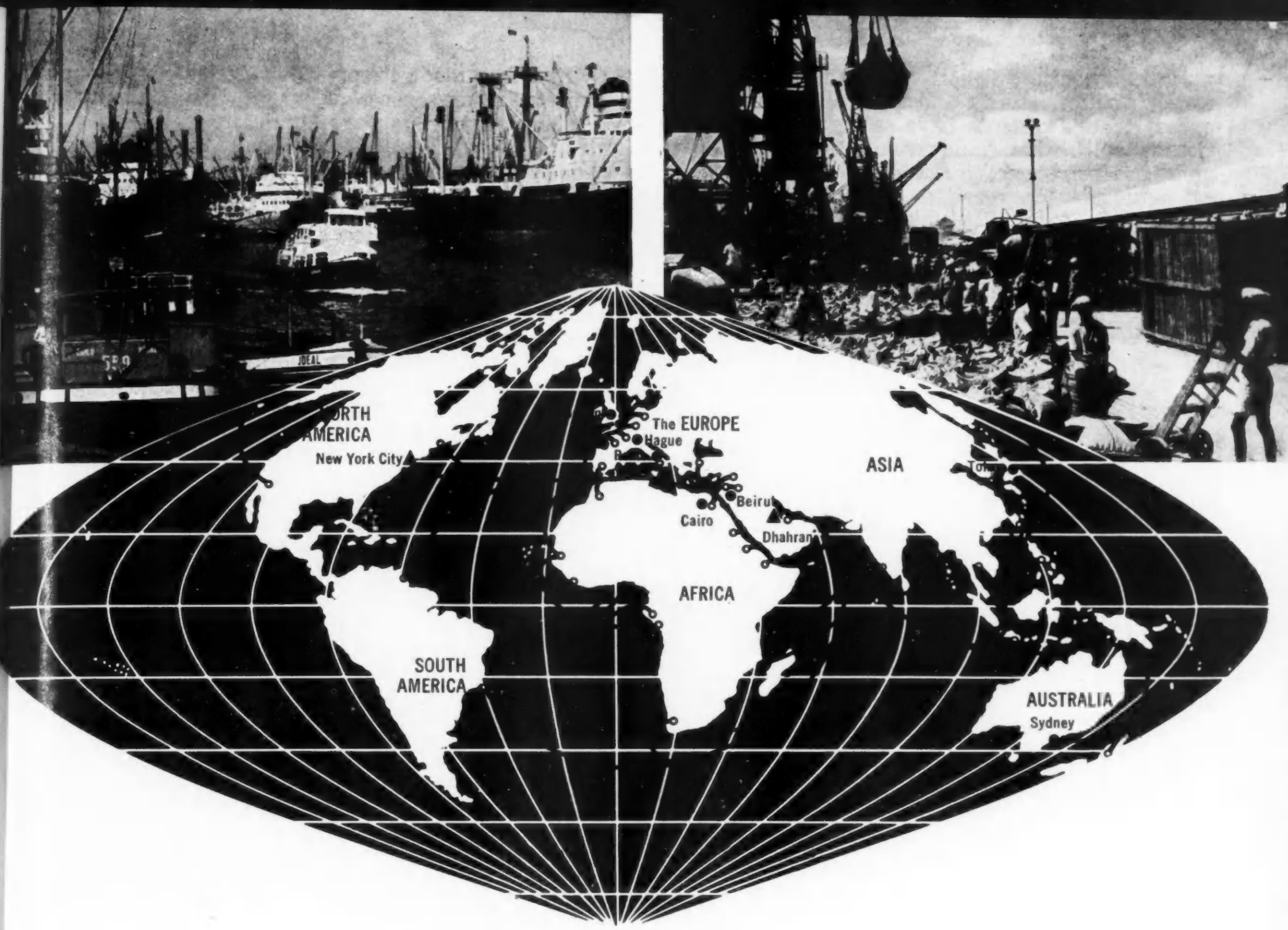
Payola will continue to draw headlines, produce much proposed legislation for better Federal control over radio and television broadcasting. It is more certain to bring sweeping probes of the Federal Communications Commission and the Federal Trade Commission, the two agencies charged with regulatory powers. There is a sharp division of Washington opinion; one group contending present statutes are adequate; a second group inclines to the belief that the two Commissions lack the statutory powers to clean up the smelly situation.

Building trades unions, primarily concerned with residential construction, are certain to seek featherbedding clauses in contracts to be negotiated this year. New construction methods — prefabrication among them — are cutting back jobs per unit as well as construction time per unit. New plastics and plastication are eating into demands for carpenters; ready-mix concrete, poured into quickly set-up forms for basements and foundations, is cutting demands for brick-masons. Experts here estimate that within another three years, the average single family home unit will be built in eight days, compared with present 3.5 weeks after laying of foundations. Unions are also weighing demands on muncipalities for tighter controls over the "do it yourself" homeowners whose growing numbers and skills are reducing employment of plumbers, electricians and carpenters.

Abolition of Presidential preferential primaries may be in the making — not this year, of course, but in subsequent national election years. Practical politicians see them as actual deterrents to selection of the No. 1 candidate; favorite son candidates come to conventions with primary support back of them, but no real prospects, yet their small bloc of delegates gives them a trading position with which they can hope to cause a temporary deadlock. Political scientists see the primary as indicative of little in value by which to gauge public choice of a candidate, the choice being made in "smoke filled" rooms and by back-stage horse-trading among delegates. At State levels, primaries are financial burdens and are beginning to be regarded as expenses which can be done away with.

Nuclear powered reactors as heaters for large buildings, whole block-wide areas in cities, are having intensive study by atomic energy researchers. They could also be used to operate large air conditioning units in the Spring and Summer, thus having year-'round economic utility. Yet to be determined is economic feasibility — operating costs versus present conventional fuels. Safety hazards are not now regarded as a problem. Atomic Energy Commission does not see sizeable atomic generated electric energy as an economic reality for many years, while some few well-placed and knowledegable atomic reactor engineers see atoms for heat as a practicality within the present decade.

Stiff license fees for commercial radio and television stations loom as a possibility. Some Congressional figures see it as a means of controlling broadcast obscenities and exaggerated, misleading advertising. Further, they look upon it as a matter of justice, as well as a source of additional revenue for the Federal government. Argument for the license fee would be: A commercial enterprise for profit — the broadcasting station — has free use of a definitely assigned channel in the air waves which belong to everyone, ergo, they should pay an appropriate sum therefor. Fees would be based upon station power, range and potential audence volume. Other arguments in favor of the proposal include better assurance of financial stability of station operators, the license fee being subject to attachment (in event of license revocation) for the benefit of aggrieved or injured parties. In the meanwhile, opponents of pay-as-you see television favorably regard it as a means of stifling pay television before it can materialize. But toll TV continues a remote possibility. In three years, Federal Communications Commission has received but one application for a toll TV channel, and that application is not seriously regarded in Commission circles.



WORLD TRADE OUTLOOK FOR 1960

By JOHN E. METCALF

- ► **Nations poised for competitive race to conquer world markets**
- ► **U.S. import-export trade dilemma and outlook**
- ► **The "have-not" world in revolt for a place in the sun**
- ► **Products — prices — financing — and the factor of goodwill**

IN the decade just ended billions of dollars were spent to strengthen the industrial sinews of the Free World. Manufacturing capacity has been built to peak levels and technological advances have reshaped production methods. In the principal industrial countries of the West foreign exchange reserves have been replenished, economic controls have been cast aside, and multilateral trade and currency convertibility are now restored.. Growing self-confidence is apparent, bolstered by the ease with which contractions in business activity have been overcome.

The world economy in entering the decade of the Sixties is rapidly picking up speed from the moderate recession of 1958 and is laying the groundwork for another broad expansion. Many signs now point to a general upsurge of world trade. Western Europe is on the threshold of a major advance in consumer spending; Asia is straining to industrialize; Africa is awakening. Latin America is belatedly recovering from the ill effects of a dip in its commodity export prices. Economic activity in Canada and the United States is again spurting ahead. Significant too is the growing entry of the Soviet Bloc to world trade.

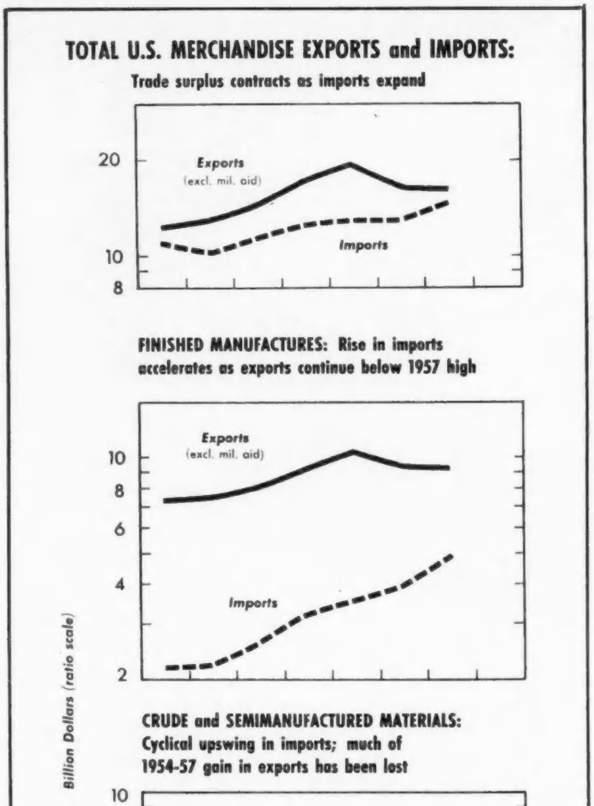
Throughout the world great encouragement has also been generated by recent steps toward relaxation of political tensions. Khruschchev's visit, Eisenhower's tour, the approaching summit meeting — all these give renewed hope for an eventual East-West rapprochement. As a result, current business planning is tinged with optimism.

The Fly in the Ointment

Despite this generally rosy outlook, there is cause for concern over the competitive position of U.S. exports in world markets. The American public has at last awakened to the danger of continued wage-

price inflation and deficit spending. Wage boosts in excess of productivity and government spending in excess of tax receipts have set in motion an inflationary spiral that could sap our economic strength and jeopardize our world leadership.

Fortunately the peril of this situation has been recognized, and a determined effort is now being made to remedy it. A changing climate of public opinion has made it somewhat easier for businessmen to resist excessive wage demands. But its a start. Likewise the Administration has been strengthened to reject politically appealing new spending programs and to strive for a balanced budget. A tight money policy is also helping to hold down inflation.



As a further effort toward reducing government expenditure and improving the balance in our foreign payments, our Allies are being asked to shoulder their fair share of defense costs and aid programs. The United States contributed substantially to the postwar rebuilding of Europe's economy. Record levels of material well being and bolstered currency reserves there and in Japan now make possible a collective approach to the challenge of the Sixties — helping the underdeveloped countries to advance toward a standard of living that will permit their integration into the world economy.

U.S. Exports Recovering

A two year decline in U.S. exports ended during the second half of 1959 and American businessmen are now trying to recover the ground lost during the global recession in 1958. United States sales abroad suffered more than the exports of other trading nations, partly because ours had been abnormally inflated in 1957 by the Suez crisis. Despite the bottomingout in our export drop, the U.S. trade surplus was drastically pared last year by an upsurge in imports. The United States trade totals for the past 5 years are shown below in billions of dollars:

	Commercial Exports	*General Imports*	*Trade Surplus*
1955	$14.3	$11.4	$2.9
1956	17.3	12.6	4.7
1957	19.5	13.0	6.5
1958	16.3	12.8	3.5
1959 - prelim.	16.1	15.0	1.1

As indicated above, the over-all level of U.S. imports were barely affected by the 1958 recession: rising imports of consumer goods cancelled out reduced foreign purchases of industrial materials. The rapid recovery of our economy last year was reflected in larger imports in all categories except foodstuffs which are fairly immune to cyclical fluctuations.

Our reduced trade surplus of $1.1 billion in 1959 was grossly inadequate to sustain the burden of our global aid program plus military spending and private investment. The deficit in our over-all foreign payments was about $4 billion, of which $1.1 billion was settled in gold and the balance by increases in foreign holdings of U.S. dollars. The smallness of the gold loss (compared with $2.2 billion in 1958) was indication that European confidence in the dollar has been bolstered by the tough financial measures now being taken by the U.S. Government to restore equilibrium.

The foreign trade and payments outlook for 1960 holds promise of some improvement for the United States. Some Government economists are cautiously forecasting a $2 billion boost in our export earnings this year, sparked by increased sales of machinery, aircraft, steel products, chemicals, cotton, and other agricultural produce. Imports are expected to keep right on climbing, but the anticipated gain of $1

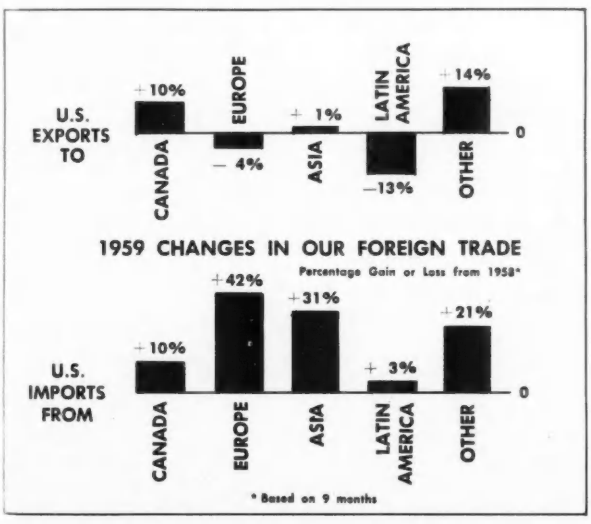
Recent Shifts In U.S. Trade	Jan-Sept 1958	Jan-Sept 1959
EXPORTS:		
DOWN	Mil. $	Mil. $
Cotton, down 57%	547	234
Coal, down 28%	406	292
Petroleum prod., down 12%	349	305
Steelmill prod., down 26%	422	311
Comm. aircraft, down 49%	186	95
Railroad equip., down 55%	150	67
UP		
Grains, up 13%	952	1080
Fats & oils, up 28%	380	488
Chemicals, up 17%	543	633
Synthetic rubber, up 45%	87	126
Automobile parts, up 28%	141	181
IMPORTS:		
UP		
Automobiles, up 61%	342	549
Steelmill prod., up 144%	155	378
Textiles, up 28%	478	614
Lumber, up 28%	539	692
Natural rubber, up 59%	172	274
Wool, up 53%	115	176
Hides & leather, up 71%	62	106
Meat products, up 28%	244	312

billion would be moderate compared with the $2.2 billion jump in 1959. Thus federal officials foresee a trade surplus in 1960 of more than $2 billion, double that of last year.

Shifting Commodity Trends

Seven commodities account for the major portion of recent shifts in our foreign trade pattern. Some of these changes are temporary adjustments while others reflect the gradual working out of long-term trends. **Exports of automobiles, steel, textiles, and oil products have declined steadily the last few years while imports have simultaneously risen.**

In the case of **automobiles,** exports in 1959 hit a postwar low of only 114,000 cars while imports exceeded 600,000 (vs. 98,000 in 1956). Rising European car output has had the dual effect of penetrating the U.S. market and capturing sales abroad that formerly went to American exporters. Detroit hopes that its new compact models will recapture some of



the lost markets, but American auto makers are playing it safe by further investment in overseas manufacturing plants.

Last year's sharp reversal of our traditional role as a net exporter of **steel products** was due chiefly to the steel strike here. Hedge buying earlier in the year and panic purchases later pushed imports way up, while exports were reduced to a trickle. However, price competition is now a growing factor to be reckoned with, especially in the smaller items like nails, wire, and reinforcement rods. Also, the St. Lawrence Seaway has lowered the delivery cost of European steel to Midwestern consumers, another advantage to European exporters.

Worldwide industrialization has reduced U.S. exports of **textiles** while lower production costs abroad have swollen U.S. imports of cloth, apparel, and home furnishings. Foreign made shirts and blouses, knit gloves, scarves, towels, and tablecloths have been very popular with the cost-conscious American consumer.

The postwar downtrend in U.S. exports of **petroleum products** was only temporarily reversed during the Suez crisis when European refineries were cut off from access to cheaper Middle East crude oil supplies. But the rapid growth in U.S. imports of crude petroleum and residual fuel oil was halted in the spring of 1959 by the Government's mandatory quota system. As late as 1952 our net petroleum exports were over $100 million; last year the excess of U.S. imports over exports was more than $1 billion.

The changing volume of cotton, coal, and aircraft exports results from different factors. The *U. S. farm support program has priced American cotton out of world markets so that it only moves abroad under subsidy.* Export volume in the crop year ending last July was exceedingly low, but during the current year the Government intends to double overseas cotton sales through its disposal program. Total 1960 cotton exports may therefore top '59 by as much as $500 million.

The outlook for **coal** is not too encouraging. Exports, chiefly to Europe, climbed rapidly in the mid-1950's reflecting mounting industrial fuel needs. Despite ample evidence that American coal has remained competitively priced in European markets, shipments dropped to about $400 million last year — less than half the 1957 figure. The increasing substitution of fuel oil for coal has resulted in a mounting surplus of European mine stocks and the raising of import barriers to protect domestic industry; thus a further decline could be in store this year.

U.S. exports of **commercial aircraft** dropped temporarily in 1958-59 as the world's major airlines prepared for the long leap into the jet age. Toward the end of last year, however, deliveries commenced on a foreign order backlog totaling well over $500 million. This will be a solid gain for 1960.

Exports of **industrial chemicals** gained steadily in 1959, more than doubling 1953 dollar sales, and a further advance is expected this year. In the same period, exports of plastics and synthetic resins tripled, and sales of synthetic rubber have expanded even more rapidly.

Among **agricultural commodities,** increased exports of wheat, coarse *(Please turn to page 486)*

1960 BOOM YEAR FOR BANK STOCKS?

By WILLIAM AMOS

SHARPLY rising interest rates, coupled with an increasing volume of bank loans sparked bank stocks in 1959 to one of their best market advances in several years. It is a source of great satisfaction to us that we forecast this rise in our Jan. 17, 1959 issue.

Prices of the major New York City bank stocks rose last year by about 23%, substantially better than the 16.4% gain in the Dow-Jones Industrial Average. Now, at the start of 1960, with interest rates promising to hold at present levels or to rise further, the prospects are that the banks will show additional gains in earnings in the coming year. The extent to which these gains will be reflected in market appreciation of bank stocks will depend partly on investor psychology, but the probabilities are that a year hence bank stocks will not only be earning more, but also will be paying more in dividends and will be selling at higher prices than they are today.

Four out of the last five years have been good ones for bank operating earnings. This is reflected in the following percentage gains in net operating earnings of the major New York City banks:

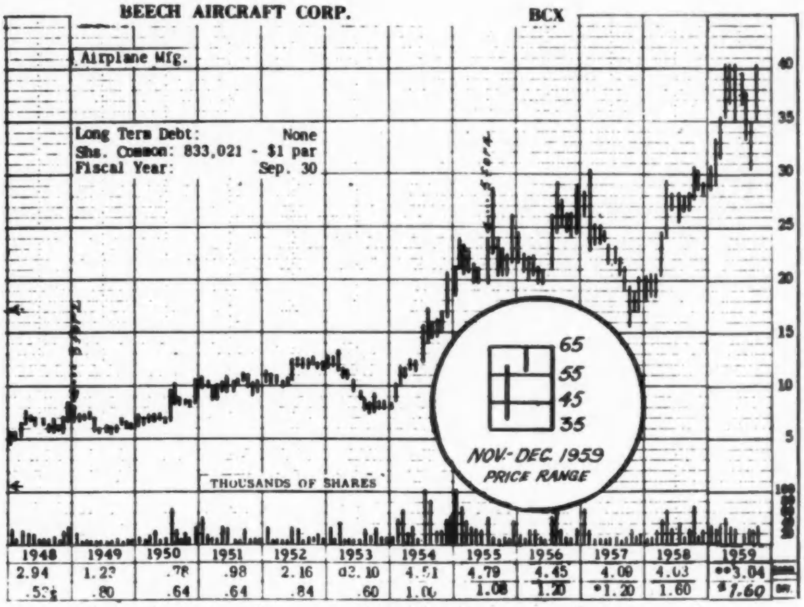
1959	15.0%
1958	0.1
1957	13.2
1956	16.6
1955	10.4

Of course, rising interest rates, which have been a major contributing factor to the good gains in bank net operating earnings, also caused declines in bond prices, which in turn produced sizable security losses for most banks last year. Thus, while net operating earnings increased handsomely, net profits, after taking into account security transactions, did not increase proportionately. So, while 1959 was a year of gratifying gains in net operating earnings for the banks, it was also a year of large security losses. In view of the adjustments in portfolios already made, it seems unlikely that security transactions of banks in 1960 will produce red figures of the magnitude of 1959.

In connection with the question of bond losses, the banks occupy a uniquely favorable tax position. This arises from the fact that security losses are deductible against earnings (providing a 52% tax credit),

Over 90 of this country's 100 largest corporations run aviation departments, and literally thousands of small companies are profitably using light aircraft for a variety of purposes. Though the corporate customer has been the largest and dominant factor in the recent growth of general aviation (all facets of aviation except the military and scheduled airlines), other markets have added to industry prosperity. *Crop dusting, pipeline patrol* and *aircraft for hire* are important areas contributing to industry sales, and pleasure flying is showing signs of revival.

Since a business, more so than an individual, is able to afford a better product with a higher price tag, the small aircraft industry has found a market suitable for the introduction of superior, higher priced aircraft, and these new products, in effect are actually efficient business tools, that have stimulated demand.



*Plus stock. Earnings shown, not adjusted for this. **First nine months.

Piper Aircraft's record is an outstanding example of the rewards of product upgrading and the exploitation of the demand for business aircraft. In 1954, it introduced its first twin-engine model, the Apache, by far the lowest priced twin in the field, but over three times the price of its previously most expensive model. The plane met with instantaneous success and sparked Piper to record sales and earnings in 1955. It also was an eye-opener to the possibilities ahead.

The next new model was the Comanche, a high-performance, single-engine plane to sell in the $15,000 - $20,000 price range. The company sold close to 1,000 last year. Nor is this the end of the line. A more powerful version of the Apache, the Aztec, to sell for $50,000 and up has just been introduced, and it looks like the company will not be able to fill the demand. In fact, the Navy may be flying a few Piper Aztecs before too long. They too have some high-priced executive talent.

The Low Priced "Compact" Plane

Piper has two development centers, one at its main plant in Lockhaven, Pennsylvania, and another at Vero Beach, Florida. Vero Beach recently introduced a new agricultural model and is currently hard at work on the development of a replacement for Piper's old standby, the cloth-covered Tri-Pacer. Vero Beach is also investigating the possibilities of a small, two-place plastic model to sell in the $5,000-$6,000 price range. If successful this model could go far in stimulating pleasure and instructional flying. Beech and Cessna, Piper's competitors, have been moving along in much the same fashion.

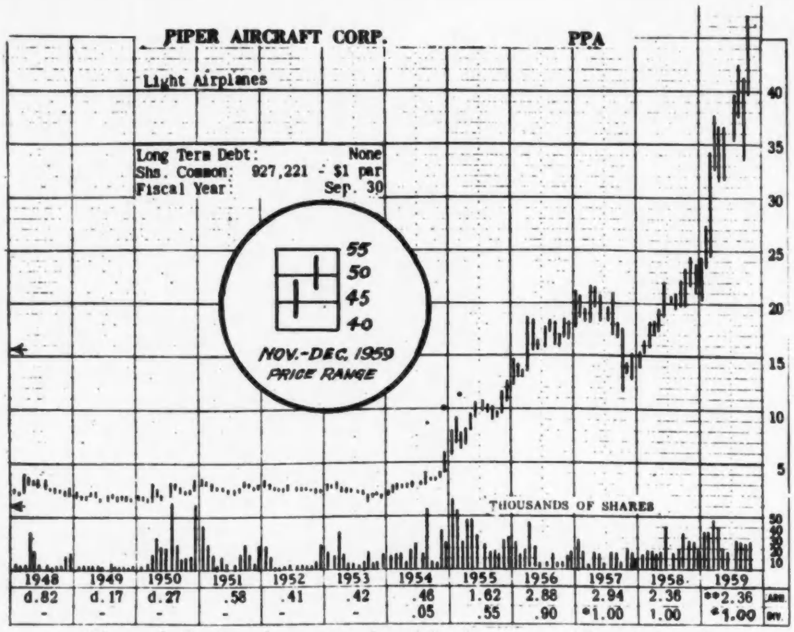
Cessna, in fact, really spearheaded the business aircraft drive with an extensive sales and advertising campaign in 1952. The company has long dominated the middle priced field with a broad line of dependable, single-engine aircraft. In 1954, Cessna ventured into the higher priced twin-engine field with its Model 310, a fast, five-passenger ship, which has been outstandingly successful both in the civilian and military markets. A heavy, single-engine plane, the 210, was just introduced this fall, and early reports indicate it will probably be an important contributor to sales this year.

Though **Beech's** rate of new model introduction

Three Small Aircraft Manufacturers

	Net Sales * 1958 (Millions)	Net Sales * 1959 (Millions)	Earnings *† Per Share 1958	Earnings *† Per Share 1959	Net Profit Margin 1958	Net Profit Margin 1959	Price Earnings Ratio	Recent Price	Price Range 1958-59	Current Div.	Div. Yield
Beech Aircraft .... W.C. (mil.) '59—$22.8	$95.8	$ 89.5	$3.84	$4.52	3.4%	4.4%	12.8	61	65 -18	$1.60[1]	2.6%
Cessna Aircraft .... W.C. (mil.) '59—$24.1	86.1	105.7	5.62	7.41	5.5	7.5	13.2	98	103¾-21¼	2.00	2.0
Piper Aircraft .... W.C. (mil.) '59—$ 7.6	27.1	34.2	2.36	3.00	8.0	8.1	17.3	52	53¾-14	1.00[1]	1.9

*—All fiscal years ended Sept. 30. [1]—Plus stock.
†—1958 earnings differ from those shown in the charts, as the latter are not adjusted for small stock dividends.



*Plus stock. Earnings shown, not adjusted for this. **First nine months.

has been somewhat lower than its competitors, it is now making up for lost time. Two new models, the Queenair and Debonair were introduced this fall, and there are others on the drawing board.

One of the most remarkable facts about this industry is the apparent lack of new product failure. In recent years, all but one new airplane developed by these three companies have proved profitable, and most have been far more successful than management's early estimates. Though the development of a new light aircraft is quite expensive, usually several millions of dollars, the profit generated by a successful new product justifies the risk by bringing in a handsome return on investment.

The one failure in the past five years was Cessna's 620, a four-engine pressurized executive transport, which was never offered for sale. The faster-than-expected introduction of commercial jets pointed to the potential oversupply and low resale price of twin-engine Convairs and Martins, which could fulfill the same type of travel requirement for which the 620 was designed. Cessna wisely dropped the development, scrapped its prototype and wrote the failure off in one quarter, moving on to record sales and near-record earnings that year despite the loss.

Possibilities of Competition from Large Military Aircraft Producers

Many investors have tended to shy away from the light plane makers, assuming if and when general aviation developed into an important market the large, military manufacturers would move in and skim off the cream.

Grumman is already selling a fast, twin-engine turboprop powered by the Rolls Royce Dart, and **Lockhead** and **North American Aviation** each have a high-performance, straight jet with commercial sales possibilities. These are expensive aircraft, however, both to buy and to operate. To move into the lower price field these companies' enginering staffs must learn to stop worrying about one-millionth of an inch and start worshipping the dollar. In addition, a large, aggressive distributor organization and marketing know-how are essential. In this area the military suppliers are inexperienced. Nonetheless, Lockhead is already flying a light, single-engine prototype at Marietta, Georgia, and though the company claims it plans to manufacture and sell the plane abroad, success with this endeavor could persuade management to change its mind. There are also a few small companies making light aircraft, and **Rockwell Standard's Aero Commander** series has been very successful in securing an important position in the lucrative, high-priced twin field.

To date, however, Beech, Cessna and Piper dominate an industry whose sales pattern has been climbing with an agility befitting its products. Estimated commercial plane sales by the general aviation industry were $122.6 million in 1959, up 24% from 1958. It is interesting to note that during the business recession of 1958 sales actually increased to $99 million from $98 million in 1957.

Piper has always dominated the low end of the market with its two-place Cub line and four-place Tri-Pacer, and its entries in the middle price field, the Comanche, Apache and Aztec, are the lowest cost aircraft in their respective classes. A new agricultural model, the Pawnee, was introduced late in fiscal 1959. Total Piper production reached 2,365 units in 1959, 33% of the industry, and sales were just over $34 million, the highest in history for Piper and 26% of the industry total. Earnings were $2.76 per share (adjusted for a 5% stock dividend paid in December). The company has stuck to its last, producing low-cost aircraft for the civilian market, and low profit military sales are negligible, a factor explaining its healthy pre-tax margins of 18% for the past year.

Military Sales Have Clouded the Beech and Cessna Pictures

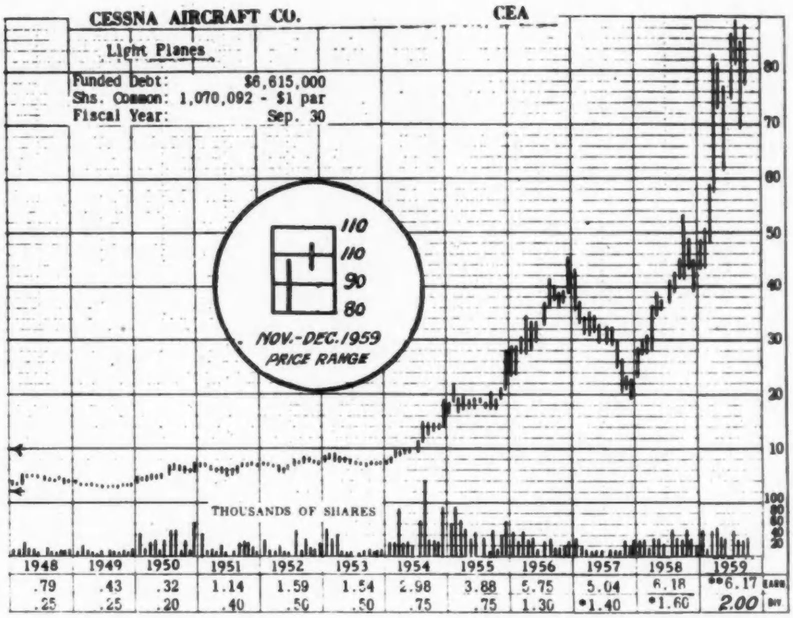
Military sales still generate a substantial percentage of Beech's volume, 58% of total sales in 1959. Though they are well spread over a variety of programs including a trainer, a command transport, target drones, environmental testing, and various subcontracts, this segment of business does not have the growth aspects of commercial products nor the profit margins. In fact, the importance of military production is probably over-emphasized by its percentage of total sales. While Beech does not break down profit contribution by division, military activities probably account for less than half of over-all corporate profits. The company's financial record in recent years has been rather unimpressive, up to recently, largely due to fluctuating military require-

ments and an unaggressive product development and sales program in the commercial field.

The success of the competitor on the other side of town—Cessna's move into first place in the general aviation industry—has indicated the fallacies of a so-called conservative approach, and **Beech** gives every indication of reversing its field.

Its two new model introductions this fall are reported to be only the beginning. A recent industry trade publication stated Beech plans to market two new aircraft in the $14,000 and $16,000 price categories, moving right into Cessna's lush middle market. Plans are underway to increase its dealerships, which now total 60, to double that figure this year.

Beech has always been known for its product excellence and is thus in a favorable position to exploit the executive aircraft potential in the $20,000 price class and under, an area accounting for an estimated 48% of the sales dollars flowing into this market. Beech's earnings per share were $4.52 (adjusted for a recent 5% stock dividend in 1959), up from $3.84 in the previous year and the highest since 1954. Management is confident of further improvement this year, largely because of a substantial increase in commercial sales.



*Plus stock. Earnings shown, not adjusted for this. **First nine months.

Cessna's Diversification

By far the most diversified operation is that of **Cessna**, with hydraulic and electronic activities in addition to military and civilian aircraft. In fact, its hydraulic operation, which manufactures pumps, valves and cylinders for farm machinery and light industrial equipment, scored the company's largest sales increase, 70%, this past year, reaching a volume of over $10 million. A major plant expansion for this division, more than doubling the size of existing plant, is nearing completion to provide for an anticipated increase in demand.

Aircraft Radio Corporation, purchased by Cessna in the early part of 1959, had sales last year totalling $14.1 million, a 46% increase over the previous year. The firm manufactures a quality line of airborne electronic navigation and communications equipment both for civilian and military use. The acquisition was a natural one for Cessna, providing access to probably the fastest growing area of general aviation. The operation seems to have blossomed under Cessna's first year of tutelage, with a 54% increase in commercial sales and a 27% increase in military sales.

Cessna's military position is probably the one trouble spot in the over-all corporate picture. Contracts were recently completed on two aircrafts, a light observation plane for the Army and a small plane for the Air Force, and the manufacture of components for Lockheed's T-33 Trainer appears at an end.

Subcontracts on the B-52G stabilizer and Cessna's prime contracts for a twin jet trainer, the T-37, indicate the probability of continued production for some time. The company has also developed a helicopter but to date has failed to receive a production order. On balance, military sales decreased 17% to $35 million this past year and another decrease is indicated. One advantage, of course, is the experience gained in the rotary-wing and jet fields, placing the company in an excellent position to move into these areas if demand develops.

Actually, decreasing military sales and increasing profit margins may be just what the investor ordered. Earnings per share were $7.41 for the year ended September, 1959 versus $5.62 the year before. Commercial airplane sales totalled almost $47 million, up 22%. As military sales dwindle and their importance to over-all corporate profits becomes less significant, Cessna's position in growth areas, i.e., general aviation, electronics and hydraulics becomes more obvious to all.

A brief study of the accompanying charts on Beech, Piper and Cessna shows the rapidity of the recent market advance for these stocks. Obviously earnings improvement has already been at least partially recognized in this rise of share prices, and this exceptionally fast growth is not likely to be duplicated over the near term. Nevertheless, all three stocks merit speculative consideration, particularly during periods of market consolidation. Beech Aircraft was recommended in this magazine in June 1958 at 26¾—it is now 64—and commitments deserve retention. It should be noted too that Cessna's Board of Directors recently voted a 3-for-1 stock split, which may tend to increase interest in the shares, and we believe prospective purchasers should wait until the price has readjusted itself to the split. As far as Piper Aircraft is concerned, we believe at its current price it has largely discounted prospects for 1960. END

THE MAGAZINE OF WALL STREET
RESEARCH LIBRARY

HOW TO MINIMIZE INVESTMENT RISKS IN CURRENT MARKETS

—Through use of professional techniques

By JOSIAH PIERCE

WITH the market enthusiastically pushing up into new high ground as the year opens, we have been receiving inquiries from skeptical investors anxiously asking whether we did not think that the top of the market was close at hand.

But many are loath to sell their stocks. Instead they are looking for ways that will enable them to minimize their risks and protect their profits.

Because this topic is of timely importance, we are reprinting a valuable feature on professional methods for protecting capital investments, which appeared in THE MAGAZINE OF WALL STREET some years back, for which subscribers expressed appreciation, which indicated ways and means for safeguarding investment capital.

Methods to Employ

Foremost among these market devices are "puts" and "calls" which are a form of investment insurance to preserve profits and avoid loss. These have long been in use by experienced investors and speculators as a means of protecting an unrealized profit on the buy or sell side of the market, or limiting a possible loss on a market commitment. Contrary to the belief held by investors, not fully acquainted with this technique, there is nothing mysterious or complex about the procedure. For their benefit, it should be said that a "put" or a "call" is a negotiable insurance contract or stock option. They are dealt in by put and call brokers and usually carry endorsement by a member firm of the New York Stock Exchange, guaranteeing that the terms of the contract will be fulfilled.

How a "Call" Works

Let us proceed to learn how and under what circumstances such option contracts might be profitably used. For illustration, we will take a hypothetical case of an investor holding 100 shares of XYZ stock, bought at 42. It is currently selling, say at 59,

a difference of 17 points in his favor. Being fearful of a reversal in price trend and desiring to protect his profit, yet not wanting to lose his position in the stock, he would appear to be caught in a maelstrom of indecision.

There is a way out. He can sell his stock and have it too, through the purchase of a "call". *After selling his "long" stock in the market,* the investor immediately buys a "call" for the same number of shares. Such "calls" or options are written for periods of time usually from 30 days to 6 months, and sometimes for even longer. The cost of a 30 day "call" is customarily $137.50 plus taxes for 100 shares, with longer "calls" at higher prices. In the hypothetical case mentioned above, the cost of the "call" for 30 days is but a fraction of the investor's realized profit of $1,700.00 from the sale of his stock. Further, he has placed himself in a position to recapture his original 100 shares by exercising his "call" via the option, if the market price rises above the price specified in the contract. If, on the other hand, the market price of the stock goes into reverse, dropping below the price at which he sold his 100 shares, he can repurchase his stock in the market at the more favorable level, and allow his "call" option to expire without further cost or penalty to him. In the interim, before repurchase, he has had available the proceds from the sale of his "long" stock.

The use of "call" options may also be advantageous in averaging the cost of "long" stock bought at a higher price than currently prevailing. Let us suppose that an investor is "long" of 100 shares of a stock bought at 35 and which has fallen to a price of 22. A decline of this magnitude may have either shaken the investor's confidence, or it may have come at a time when funds are not readily available to acquire another 100 shares at the lower price to average his cost. In such a case, the investor might purchase a "call" option, when the stock is selling at 22. It may be stated that options, whether "put" or "call", usually carry a contract price not far away from the prevailing market price at the time that they are purchased. Let us assume, in this case, that the contract price in the "call", which the investor has purchased, is 25. If and when the stock recovers to 30, he is in a position to exercise his "call" (call in the stock) on 100 shares, and, if he so chooses, to sell both the original 100 shares of "long" stock and the 100 shares of "called" stock at an approximate break-even; in other words, eliminate his original loss.

"Call" options are also often used by speculators, in lieu of making actual purchases of stock in the market. For instance, a speculator may believe that a particular issue is about to advance in price. However, his funds may be impaired or he may be reluctant to risk the amount of capital required to make an outright or marginal purchase. An experienced speculator would then resort to buying a "call" on the stock. If the stock rises in price as he expected, he has a right to call for the stock or have it delivered to his broker and thereafter sell it in the open market. If, however, the expected rise does not take place, during the life of the option contract or "call", the cost of the operation is no more than the price paid for the "call".

How a "Put" Works

A "put" option works in the direction opposite to that of a "call". A "put" contract gives the holder the right to sell or deliver a specified number of shares of a stock, at the price and during the period of time written in the contract.

Let us return to the first hypothetical case of the investor who purchased 100 shares of XYZ at 42, with the stock currently selling at 59. In this illustration, *let us suppose that he does not sell his "long" stock in the market,* but feels the need of protecting himself against a possible decline in price, so as to preserve his profit. Having come to this conclusion, he may purchase a "put" option for 100 shares, for 30 days or longer. In the event that the stock drops substantially below 59, within the period of time or life of the "put", he has the right to exercise his "put" and deliver the stock at the higher price specified in the option. In other words, he thus delivers or sells his 100 shares of "long" stock at not far from the 59 price prevailing when he bought the "put". However, if the stock advances higher than 59, instead of declining, he can disregard his "put" with no further cost.

Just as a "call" can be used to protect or average a "long" position, or in lieu of purchasing a stock, so can a "put" be used in a "short" position. This time, the procedure is in reverse, in each illustration.

Short Sales

It may be well to review briefly the nature of a "short" sale, so that the uses of a "put" for this purpose can be kept in mind. When a speculator or trader sells "short", he has sold a stock through a broker which he does not own at the time of sale, but must purchase some time later in order to make final delivery. The broker arranges temporary delivery by borrowing the stock from an owner. Thus, the speculator or trader has assumed a position, which is quite the opposite of a buyer of "long" stock. In a "short" sale, he expects the stock to decline in price. If and when it does decline, he may take his profit by "covering" or buying in the stock for the purpose of final delivery on his sale and thus closing the transaction.

Finally, if a speculator or trader is "short" of a stock and later realizes a profit, regardless of whether it is less or more than 6 months, he must pay an income tax on the profit at the full rate of his personal tax bracket. Even though the transaction was longer than 6 months, he can not claim the long-term capital gain privilege of a 25% tax. However, if he has purchased a "put", instead of selling the stock "short", and if the "put" contract runs for more than 6 months and the stock declines, he can claim the 25% long-term capital gain benefit by taking his profit through sale of the actual "put" contract, which is then valuable, to another party. This is not the case if he exercises the "put" in the regular way.

Use Of Stop-Loss Orders

Another popular device for protecting profits or limiting losses, is the use of a stop-loss order. This method can best be illustrated by an example. Suppose an investor in the aforementioned XYZ Company, had bought it at *(Please turn to page 483)*

FOR PROFIT AND INCOME

Stocks vs Bonds

Among professionals who are required to venture into market prophesy, the bulls say investors will continue to prefer stocks over fixed-income securities because of creeping inflation, capital-growth potentials in equities, etc. That is so of some investors, not of others. According to estimates of the Securities & Exchange Commission for the first nine months of 1959, individuals continued to buy mutual fund shares on balance, but liquidated $500 million net of other stock holdings, while buying $2.3 billion of tax-exempt Municipal bonds, against only $900 million in the like period of 1958. In the period, individuals bought an estimated $6.5 billion of marketable U. S. Government obligations, against liquidation of $3.6 billion of such securities in the first nine months of 1958. That is a decided shift in favor of fixed-income securities. Final data for 1959 will show it was extended through the fourth quarter.

Take A Tip

The fire and casualty insurance companies are old hands in managing big-scale investment funds. They are not unduly impressed by "new-era" or "perpetual-inflation" market talk. They are not unmindful of comparative yields —or of increased risk in common stocks. When their year-end reports are published they will show considerable switching around in stocks, but employment of the bulk of their new money in bonds or short-term Treasuries. Reports of the balanced mutual funds will show a leaning in the same more conservative direction. For some individuals, the increased preference for Municipal bonds is simple arithmetic. As fairly well typified by the Dow industrial average, current average yield of Blue-Chip stocks is around 3.10%. It comes down to 2.17% net for a person subject to a 30% effective tax rate; and to 1.55% net at a 50% tax rate. Against that, the average tax-free medium-grade Municipal bond yield is close to 4%. Meanwhile, measured by the Government's weighted consumer price index,

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Ampex Corp.	6 mos. Oct. 31	$ .80	$ .36
Canada Dry Corp.	Year Sept. 30	1.61	1.41
Chock Full O'Nuts Corp.	Quar. Oct. 31	.61	.47
Chain Belt Co.	Year Oct. 31	4.17	3.49
Montgomery Ward & Co.	39 weeks Oct. 28	1.40	1.22
Aeroquip Corp.	Year Sept. 30	2.27	.75
American Motors Corp.	Year Sept. 30	10.16	4.65
Texas Utilities	12 mos. Oct. 31	2.89	2.72
West Virginia Pulp & Paper	Year Oct. 31	2.21	1.78
Allied Stores Corp.	12 mos. Oct. 31	4.54	3.81

inflation has been proceeding in recent months at a rate under 1% a year. For a detailed study of the bond market, see the article "Why 1960 Is A Time For Caution In the Bond Market," in this issue.

Bull Market?

While it took some huffing and puffing, the industrial average did get to a new high by a slight margin in the final 1959 trading session. Lacking a rail "confirmation," the technical analysts can argue whether we still have a bull market. One thing is sure: we still have "a market of stocks," and there are plenty of cross-currents ahead. Here is a partial list of the stocks which at the turn of the year were down around 30% or more from 1959 highs: American Metal Climax, American Stores, Beaunit Mills, Bell Aircraft, Boeing, Bucyrus-Erie, Bullard, Capital Airlines, Comptometer, Deere, Evans Products, Industrial Rayon, Northrop Aircraft, Richfield Oil, United Fruit. A partial list of stocks off 20% to 30% from 1959 highs to the year end would take more space than it merits here. The Dow average gained about 16% net in 1959. For the purposes of this department, it is currently assumed that more stocks will lose some ground for full-year 1960 than did so in 1959.

Dividend Boosts

While prospects are not too clear beyond mid-year, probably numerous dividend increases will come in 1960. Here are some selected candidates for boosts ranging from moderate to sizable: American Home Products, American Steel Foundries, Federated Department Stores, Ferro Corp., Ford Motor, Grant, Hershey Chocolate, Jones & Laughlin Steel, Macy, Motorola, National Acme, Procter & Gamble, Revlon, Rexall Drug, and United States Steel.

Population Boom

The roseate forecasts for the "golden 1960's" put heavy emphasis on population growth. Well, the greatest relative growth over the next four or five years will be in the number of 'teenagers. They are prodigious consumers of many things—but not producers. The question is whether fathers will have enough income to buy their food, clothes, medical care, education, soft drinks and dozens of other items—with something left over to make a down payment and carry monthly charges on a suburban home, buy a new car, replace the worn carpet, or the obsolete small-screen TV set, etc. It is easier to translate population growth into over-all stimulation of the economy than into rational selection of this or that stock. Of the many factors involved in *current* stock selection, population growth in the 1960's (or 1970's, 1980's, etc.) is among the least influential. For instance, we have had and are still having a boom in babies. That ought to be fine for makers of baby foods, such as Beech-Nut Life Savers or Gerber Products. But competition is severe and prices have been cut. Earnings of these two companies are unimpressive and the two stocks are well down from best earlier levels.

Best In Group

Taking market action alone, without debatable reference to investment quality or prospects, the best-acting steels as this is written are Armco and National . . . In the department-store group, the stand-outs are Associated Dry Goods, Federated and Gimbel . . . In oils, Shell Oil and Texaco . . . In rail equipment, American Steel Foundries . . . In utilities, Florida Power, Florida Power & Light, Middle South, Southwestern Public Service, Texas Utilities . . . In automobiles, Ford and Checker Motors . . . In auto parts, Eaton Mfg. and Borg-Warner . . . In chemicals, Dow, Hercules Powder and Monsanto . . . In soft drinks, Pepsi-Cola . . . In railroads, Western Maryland . . . In glass, Owens-Illinois . . . In air transport, Western Air Lines . . . In paper, St. Regis . . . In publishing, McGraw-Hill . . . In textiles, Stevens . . . In baking, National Biscuit . . . In electrical equipment, General Electric . . . In home appliances, Maytag . . . In cigarettes, American Tobacco . . . In the drug group, Norwich Pharmacal and Plough, Inc.

Short Position

Measured in relation to average trading volume of the prior four weeks, the Big-Board short interest as of December 15 was at the lowest level in over three and a half years. This is construed by some analysts as an indication of a technically vulnerable market. Only time will tell. There is no gimmick by which a major or temporary market top can be predicted with adequate precision. If there were, the "technicians" would be rich and not bothering with brokerage house jobs. Meanwhile, a somewhat increased short position might be reported for mid-January as a result of traders' anticipation of a reaction of some sort after year-end strength.

Another Look

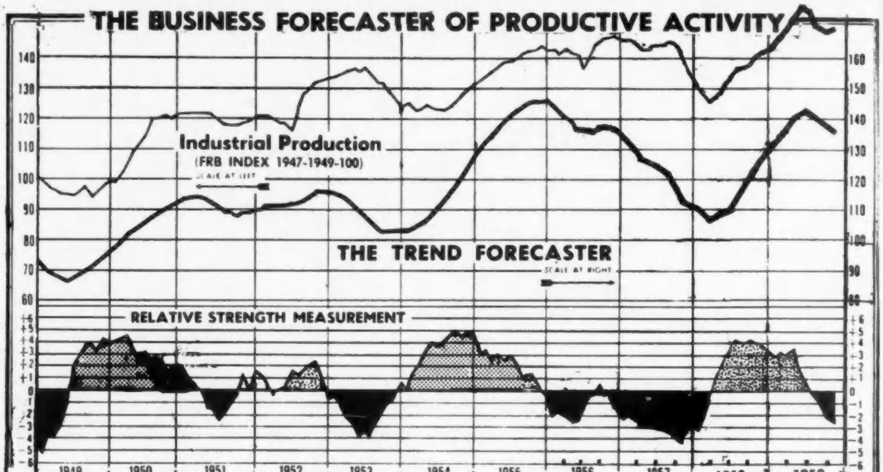
Timken Roller Bearing was recommended here in our August 15 issue at 57 and in the November 21 issue at 61½. It is currently at 65½, off from recent high of 69¾. Of above-average quality and reasonably priced on earning power, the stock remains worth holding . . . First National City Bank of (New York) was recommended in the November 7 issue at 83 and is now around 93. Prospects for operating earnings and dividends remain favorable. Retain holdings in the issue. An article on the outlook for bank stocks appears elsewhere in this issue . . . Loew's, Inc. was recommended last June at 30, off from

(Please turn to page 495)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1959	1958
Punta Alegre Sugar	Year Sept. 30	$ .95	$2.52
City Stores Co.	52 weeks Oct. 31	.92	1.15
Western Maryland Rwy.	11 mos. Nov. 30	2.61	3.03
Creole Petroleum Corp.	9 mos. Sept. 30	1.97	2.32
Great Northern Rwy.	11 mos. Nov. 30	3.55	3.97
Staley (A. E.) Mfg.	Year Sept. 30	2.74	2.91
Northrop Corp.	Quar. Oct. 31	.80	.92
Rohr Aircraft Corp.	Quar. Oct. 31	.24	.44
Chesapeake & Ohio Rwy.	11 mos. Nov. 30	5.09	5.65
Union Pacific R.R.	10 mos. Oct. 31	2.16	2.59

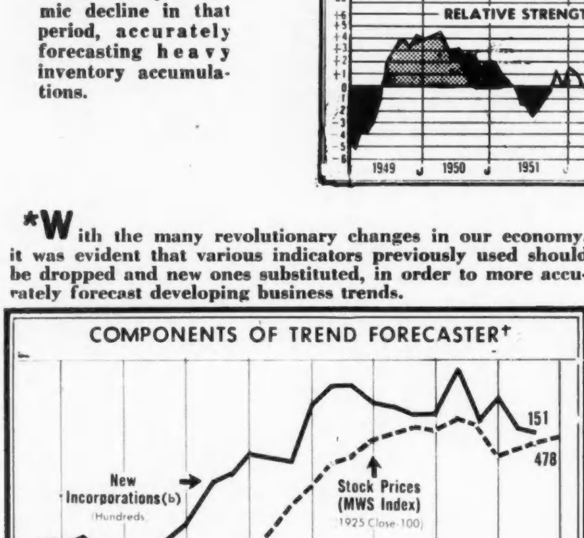
the Business



Business Trend Forecaster*

INTERESTING TO NOTE — The rise in industrial production line between 1956-57 was offset by economic decline in that period, accurately forecasting heavy inventory accumulations.

***With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.**



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In the fourth quarter of 1959, many of the components of the Trend Forecaster were hit hard by the steel strike and its spreading effects on manufacturing, orders, and construction contracts. Durables orders and factory hours worked show the effects pronouncedly, but they also appear in residential building starts, through the strike's influence on starts of multiple dwellings, where steel is an important material. The series clearly not affected by the strike, such as new incorporations and business failures, behaved inconclusively during the quarter. Industrial commodity prices rose slightly, and stock prices advanced moderately.

In the third quarter, and in most of the fourth quarter, the Relative Strength Measure was in a declining trend, reaching a trough of about minus 2 roughly mid-way in the last quarter. It is now beginning to rise as the consequences of the strike are gradually obliterated. Its behavior in the first quarter of the new year should be revealing with regard to the stamina of the post-strike pickup in general business activity.

Analyst

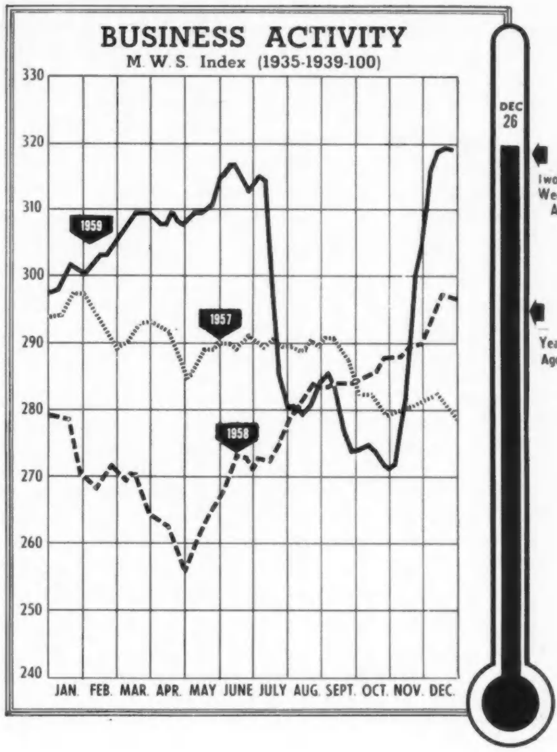
CONCLUSIONS IN BRIEF

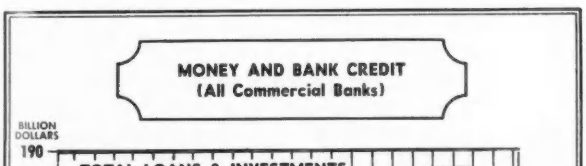
PRODUCTION—now advancing sharply, as steel runs at capacity, auto production advances into highest range since 1955, and capital goods production recovers from strike. Look for sharp further gains in output rates in next several months.

TRADE—after a record Christmas, further gains (seasonally adjusted) should be expected in the first quarter. Total retail sales to run at record rate above $18.5 billion for several months.

MONEY & CREDIT—tightening again, slowly but persistently, as inventory demand for loans advances. Further advance in rates to be slight, and crisis to be past by Spring; thereafter a plateau in interest rates is likely.

COMMODITIES—general wholesale prices have actually eased somewhat in recent months, as industrial commodities have been generally stable and farm-commodity prices have continued to fall. Outlook; mild rise in industrial prices, stability in farm prices over next several months.





As the new year begins, business is in a pronounced uptrend from the trough artificially induced by the steel strike in the late months of 1959. There are few bears brave enough to argue that this uptrend will be very short-lived or without vigor; postwar experience with steel strikes strongly suggests that the boomlet is good for six months, anyway. Moreover, this having been the longest steel strike on record, the probability of the boomlet lasting a little more than six months seems a reasonable bet, even to very conservative forecasters. But what comes after the boomlet? Will a general uptrend continue throughout 1960 and into 1961, or will a turning point be reached sometime in the year ahead? And when the next recession comes, will it simply be another in the series of minor postwar interruptions, or something worse?

Bull or bear, it takes a brave forecaster to protrude his neck on questions that relate to the period more than six months ahead. As a note to the bearishly inclined, however, one might make a significant and relevant distinction between two types of conservatism with regard to the business outlook.

Bear type A could well point to the rather imposing list of present and prospective weaknesses in the business picture. To list a few, agricultural income is now in a pronounced and (by anyone's standards) fairly serious decline. It is now running fully 25% below a year ago, and it paints a rather dreary picture of the outlook for farm equipment makers. Again, residential building activity is obviously caught in a money squeeze, and a further

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Nov.	148	147	141
Durable Goods Mfr.	1947-'9-100	Nov.	156	156	151
Nondurable Goods Mfr.	1947-'9-100	Nov.	144	144	135
Mining	1947-'9-100	Nov.	123	117	123
RETAIL SALES*	$ Billions	Nov.	18.1	18.3	17.0
Durable Goods	$ Billions	Nov.	5.8	6.4	5.5
Nondurable Goods	$ Billions	Nov.	12.2	12.0	11.4
Dep't Store Sales	1947-'9-100	Nov.	145	144	137
MANUFACTURERS'					
New Orders—Total*	$ Billions	Nov.	29.5	30.5	27.8
Durable Goods	$ Billions	Nov.	13.9	15.1	13.6
Nondurable Goods	$ Billions	Nov.	15.6	15.4	14.2
Shipments*	$ Billions	Nov.	29.2	29.4	27.5
Durable Goods	$ Billions	Nov.	13.5	14.0	13.3
Nondurable Goods	$ Billions	Nov.	15.7	15.4	14.2
BUSINESS INVENTORIES, END MO.*	$ Billions	Oct.	88.7	89.2	84.9
Manufacturers'	$ Billions	Oct.	51.4	51.7	49.3
Wholesalers'	$ Billions	Oct.	12.5	12.5	12.1
Retailers'	$ Billions	Oct.	24.8	24.8	23.5
Dept. Store Stocks	1947-'9-100	Oct.	159	161	152
CONSTRUCTION TOTAL	$ Billions	Nov.	4.4	4.9	4.5
Private	$ Billions	Nov.	3.3	3.5	3.1
Residential	$ Billions	Nov.	1.9	2.0	1.8
All Other	$ Billions	Nov.	1.4	1.5	1.3
Housing Starts*—a	Thousands	Nov.	1210	1180	1427
Contract Awards, Residential—b	$ Millions	Nov.	1092	1515	1206
All Other—b	$ Millions	Nov.	1281	1620	1388
EMPLOYMENT					
Total Civilian	Millions	Nov.	65.6	66.8	64.7
Non-Farm *	Millions	Nov.	52.7	52.6	51.4
Government *	Millions	Nov.	8.3	8.3	8.1
Trade *	Millions	Nov.	11.7	11.6	11.4
Factory *	Millions	Nov.	12.2	12.2	12.0
Hours Worked	Hours	Nov.	39.9	40.3	39.9
Hourly Earnings	Dollars	Nov.	2.23	2.21	2.17
Weekly Earnings	Dollars	Nov.	88.98	89.06	86.58
PERSONAL INCOME*	$ Billions	Nov.	385	382	368
Wages & Salaries	$ Billions	Nov.	260	259	246
Proprietors' Incomes	$ Billions	Nov.	58	57	59
Interest & Dividends	$ Billions	Nov.	37	37	33
Transfer Payments	$ Billions	Nov.	28	27	27
Farm Income	$ Billions	Nov.	14	14	18
CONSUMER PRICES	1947-'9-100	Nov.	125.6	125.5	123.9
Food	1947-'9-100	Nov.	117.9	118.4	119.4
Clothing	1947-'9-100	Nov.	109.4	109.4	107.7
Housing	1947-'9-100	Nov.	130.4	130.1	128.0
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Nov.	111.8	111.9	110.6
Bank Debits*—g	$ Billions	Nov.	91.5	91.9	80.5
Business Loans Outstanding—c	$ Billions	Nov.	31.0	30.5	N.A.
Instalment Credit Extended*	$ Billions	Nov.	4.1	4.2	3.6
Instalment Credit Repaid*	$ Billions	Nov.	3.7	3.7	3.5
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Nov.	5.9	3.0	5.0
Budget Expenditures	$ Billions	Nov.	6.6	6.9	6.2
Defense Expenditures	$ Billions	Nov.	3.7	3.9	3.6
Surplus (Def) cum from 7/1	$ Billions	Nov.	(6.4)	(5.7)	(10.1)

PRESENT POSITION AND OUTLOOK

decline in the rate of housing starts seems a pretty good bet. Still another prospective weakness (or at least an absence of a customary strength) is the tight control over spending being exerted by the Federal government; at the same time, the impact of the interest rate on the spending of state and local governments may be enough to slow up the historic rise in this sector. No bull on the 1960 outlook can take much sustenance from the present trend in construction activity in the government sector; it now seems to be pointing notably downward. And finally, one might point with justifiable alarm to the present rate of increase in instalment credit outstanding, and wonder how long we can hope it will be maintained.

On these grounds, Bear Type A might argue that the poststrike boomlet will be of short duration, and that a business cycle turning point will occur before the end of the year, as uptrends yield to a typical postwar recession.

On the same grounds Bear Type B might argue that the outlook is really even worse, in that the business cycle itself, greatly reinforced by the artificial stimulus provided by the steel strike, will carry all through 1960, accumulating general weaknesses as it goes, and ultimately yielding, in 1961, to a recession much sharper than typical postwar experience. At the moment, and given a healthy respect for the true power of the business cycle, Bear Type B has the better case: 1960 is likely to see no turning point, and 1961 is likely to see a recession considerably more severe than in 1949, 1954, or 1958.

* * *

THE PROFITS PICTURE—It now looks very bright, and will doubtless continue to look bright through most of 1960.

In the second quarter of 1959, before the steel strike, total corporate profits, before taxes, rose to a record $52.6 billion. In the third quarter, the profits rate evidently fell to about $46 billion, and recovered only slightly in the fourth quarter, as persevering effects of the strike held down profits in steel, automobiles and other hardgoods industries. In the first quarter, however, earnings will clearly

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1959 Quarter III	1959 Quarter II	1959 Quarter I	1958 Quarter III
GROSS NATIONAL PRODUCT	478.6	484.5	470.2	444.0
Personal Consumption	313.3	311.2	303.9	294.4
Private Domestic Invest.	67.0	77.5	69.8	54.2
Net Exports	0.0	—1.8	—0.9	1.6
Government Purchases	98.4	97.7	97.4	93.8
Federal	53.6	53.9	53.8	53.6
State & Local	44.8	43.8	43.8	40.8
PERSONAL INCOME	381.0	381.1	371.8	336.4
Tax & Nontax Payments	45.8	45.8	44.4	42.9
Disposable Income	335.2	335.3	327.4	320.4
Consumption Expenditures	313.3	311.2	303.9	294.4
Personal Saving—d	21.9	24.1	23.5	26.0
CORPORATE PRE-TAX PROFITS		52.6	46.5	38.3
Corporate Taxes		25.6	22.6	18.8
Corporate Net Profit		27.0	23.8	19.5
Dividend Payments		13.0	12.8	12.6
Retained Earnings		14.0	11.0	6.9
PLANT & EQUIPMENT OUTLAYS	34.3	32.5	30.6	29.6

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Dec. 26	318.6	319.4	297.2
MWS Index—per capita*	1935-'9-100	Dec. 26	233.0	233.6	221.2
Steel Production	% of Capacity	Jan. 2	94.9	93.3	76.2
Auto and Truck Production	Thousands	Jan. 2	136	124	118
Paperboard Production	Thousand Tons	Dec. 26	252	318	321
Paperboard New Orders	Thousand Tons	Dec. 26	198	268	365
Electric Power Output*	1947-'49-100	Dec. 26	268.1	259.3	246.4
Freight Carloadings	Thousand Cars	Dec. 26	469	615	432
Engineerings Constr. Awards	$ Millions	Dec. 28	191	408	273
Department Store Sales	1947-'9-100	Dec. 26	246	318	205
Demand Deposits—c	$ Billions	Dec. 23	62.6	63.4	62.9
Business Failures—s	Number	Dec. 24	195	285	185

PRESENT POSITION AND OUTLOOK

be back at the pre-strike rate, and a further advance to perhaps $55 billion seems in the cards for the second and third quarters. The rate in these quarters is likely to be about as high as profits will get in this cycle; typically the profits rate begins to subside, while total output is still rising slightly.

* * *

CONSTRUCTION—in the last half of 1959, the annual rate of construction activity fell fully 10%, a tremendous decline in this industry, which has been relatively stable throughout the postwar recessions. The past stability reflects an off-setting tendency within the total: residential and nonresidential activity have usually moved in opposite directions. Not so in the past half year: important declines have occurred in private residential activity, private nonresidential activity, and especially in government construction at the Federal, state and local levels. Of course, steel shortages induced by the strike, contributed to the downturn, but indications are that even under normal conditions, construction outlays will not recover to their previous peak.

***Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.**

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1959 Range High	1959 Range Low	1959 Dec. 24	1959 Dec. 31
300 Combined Average	492.4	436.9	477.9	480.2
4 Agricultural Implements	492.4	356.2	436.5	433.0
3 Air Cond. ('53 Cl.—100)	137.2	110.5	127.5	127.5
10 Aircraft ('27 Cl.—100)	1375.1	1019.1	1105.0	1105.0
7 Airlines ('27 Cl.—100)	1429.4	1079.6	1089.6	1099.6
4 Aluminum ('53 Cl.—100)	594.5	392.0	538.5	521.3
5 Amusements	252.6	200.5	231.4	227.5
6 Automobile Accessories	541.9	413.4	537.9	541.9
6 Automobiles	156.8	93.7	154.9	153.9
4 Baking ('26 Cl.—100)	41.3	28.5	38.3	38.3
4 Business Machines	1395.5	1173.8	1343.3	1317.2
6 Chemicals	835.5	692.9	801.6	801.6
4 Coal Mining	37.8	28.1	34.5	35.3
4 Communications	229.8	164.6	226.6	229.8H
9 Construction	178.9	155.6	169.6	172.7
7 Containers	1142.6	988.8	1021.8	1043.8
6 Copper Mining	344.6	280.7	322.4	327.9
2 Dairy Products	163.1	138.8	154.5	154.5
6 Department Stores	143.8	119.1	143.8	143.8
5 Drugs-Eth. ('53 Cl.—100)	475.4	379.5	447.4	439.5
6 Elec. Eqp. ('53 Cl.—100)	369.9	268.8	359.2	369.9H
3 Finance Companies	769.7	654.6	661.8	668.9
5 Food Brands	470.0	406.3	446.1	446.1
3 Food Stores	279.6	244.4	249.8	257.9

(Nov. 14, 1936 Cl.—100)	High	Low	Dec. 24	Dec. 31
100 High Priced Stocks	306.7	268.4	299.6	302.8
100 Low Priced Stocks	665.9	585.4	638.2	637.5
5 Gold Mining	1013.5	853.0	1005.1	1013.5H
4 Investment Trust	190.6	165.2	172.4	170.6
3 Liquor ('27 Cl.—100)	1624.8	1429.2	1519.4	1504.4
8 Machinery	563.2	452.4	527.8	523.3
3 Mail Order	467.5	253.1	455.3	455.3
4 Meat Packing	277.1	204.4	277.1	273.1
5 Mtl. Fabr. ('53 Cl.—100)	211.2	181.3	202.4	200.6
9 Metals, Miscellaneous	409.6	343.8	369.4	373.0
4 Paper	1310.5	1170.1	1263.7	1275.4
22 Petroleum	885.5	701.7	726.8	751.9
21 Public Utilities	365.4	334.9	341.7	345.1
6 Railroad Equipment	104.1	86.9	101.5	99.8
20 Railroads	78.2	66.0	66.7	69.4
3 Soft Drinks	726.6	599.8	715.1	726.6H
12 Steel & Iron	476.4	392.5	461.1	464.9
4 Sugar	144.7	88.7	88.7	92.6
2 Sulphur	863.3	580.6	611.2	618.8
11 TV & Electron. ('27 Cl.—100)	111.3	65.6	108.5	108.5
5 Textiles	259.6	176.6	217.2	220.8
3 Tires & Rubber	281.8	216.1	252.2	258.5
5 Tobacco	194.9	172.9	186.5	188.1
3 Variety Stores	363.9	331.4	360.6	363.9
20 Unclassif'd (49 Cl.—100)	284.9	239.8	265.9	263.5

H—New High for 1959.

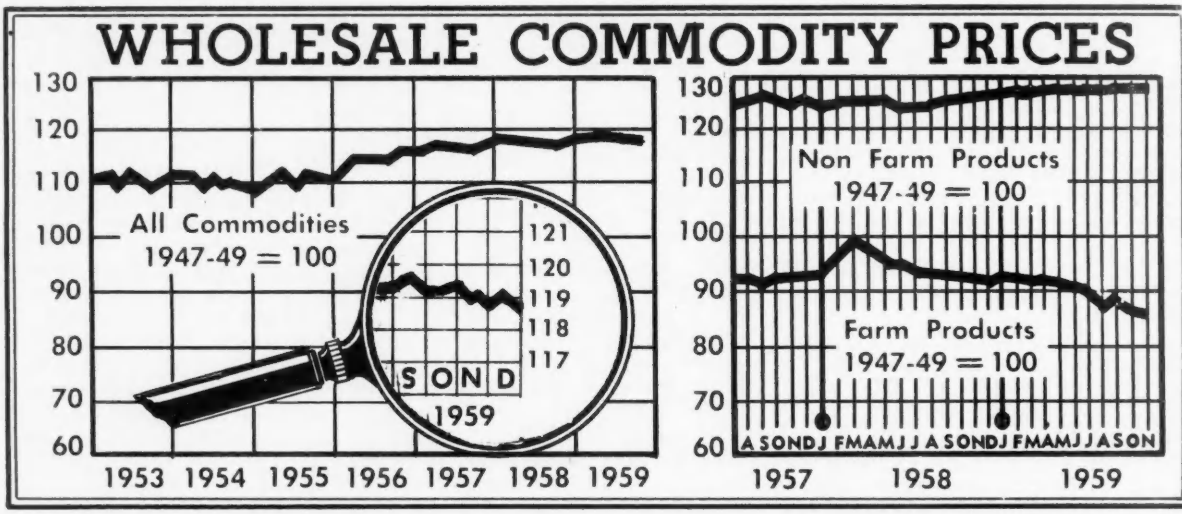
Trend of Commodities

SPOT MARKETS—Sensitive commodities continued to recede in the two weeks ending December 31. The BLS daily index of 22 sensitive commodities closed at 83.0, a drop of 0.5% from its level of two weeks ago. This index was down to 82.8 — a ten-year low — early in the period, but firmed somewhat in subsequent trading. The main weakness during the fortnight was in metals, with lead scrap declining sharply and tin prices giving ground. Tallow and wool tops also were lower while cotton, hides and rubber advanced.

Among a broader range of commodities, as represented by the BLS comprehensive weekly price index, changes were small. Farm products were lower and this accounted for a decline of 0.1% in the over-all index. All commodities, other than farm products and foods, held unchanged, continuing the desultory action of recent months.

FUTURES MARKETS—Commodity futures were inclined to firmness in the last two weeks of the year, although movements were moderate in most cases. Corn, soybeans, lard, coffee and copper were higher while cocoa, hides and lead, declined. Mixed trends prevailed for wheat, wool tops and rubber.

Wheat futures were mixed, with near months advancing and new crop options slightly lower. The March option advanced 3½ cents to close at 204¼. Traders are still fearful that heavy loan entries might result in a "squeeze" in the current crop. At the same time, the new crop options were hurt by Administration proposals pointing to a lower support level for the 1961 crop. Although any attempt to reduce the floor on farm products is bound to run into a great deal of opposition in an Election year, still traders were steering clear of the affected commodities.



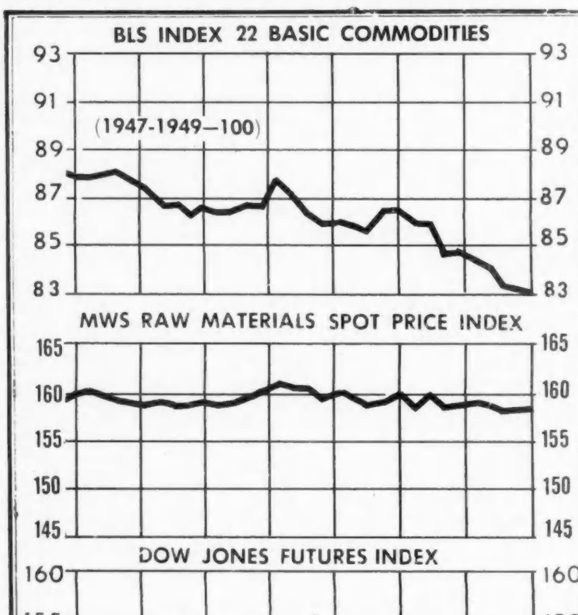
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Dec. 29	118.8	118.9	119.0	60.2
Farm Products	Dec. 29	85.0	85.6	91.2	51.0
Non-Farm Products	Dec. 29	128.5	128.5	126.9	67.0
22 Sensitive Commodities	Dec. 31	83.0	83.4	85.5	53.0
9 Foods	Dec. 31	70.0	70.0	80.4	46.5
13 Raw Ind'l. Materials	Dec. 31	93.3	94.0	89.2	58.3
5 Metals	Dec. 31	96.8	99.8	97.8	54.6
4 Textiles	Dec. 31	81.5	81.4	77.0	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1959	1958	1953	1951	1941
High of Year	161.4	154.1	162.2	215.4	85.7
Low of Year	152.1	146.5	147.9	176.4	74.3
Close of Year		152.1	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1959	1958	1953	1951	1941
High of Year	152.7	159.0	166.8	215.4	84.6
Low of Year	144.2	147.2	153.8	174.8	55.5
Close of Year		147.6	166.5	189.4	84.1



How To Minimize Investment Risks In Current Market

(Continued from page 475)

42 and it had since risen to 59. If the holder wanted to protect most of this profit, he could put an order to sell the stock at 57 stop, or any other price he wishes, below the market. If the stock touches the stop order level it becomes a selling order at the market. In this way, the investor can retain most of his profit if the stock begins to recede. On the other hand if the stock continues to rise without touching his stop order level, then he will garner the additional profit and can raise his stop loss order to a higher level. This method can also be used to protect profits on the short side, by placing a stop buy order above the market. Losses can also be limited of course by the employment of stop orders.

Professional traders usually watch the pattern that a stock makes and once it gets into a narrow trading range, they place a stop order just outside of the range, the theory being that a break-out is the signal for a continuation of the move. A word of warning may be in order at this point. Break-outs are sometimes misleading, or a stock may dip down to a stop-order and then continue its merry way upward. Another pitfall occurs when many stop-orders are on the specialist's book at a given price. When the stock hits this level, these orders become market orders and if buyers are scarce, the execution of the order may be at a much lower level than expected. As the investor must realize, no method of protecting profits is perfect, but with experience he will find that the methods outlined above should be of great value in protecting capital and maximizing profits.

END

Outlook For Insurance Stocks

Discussed in Our Issue of January 30

When the first USS *Independence* was commissioned in 1776, you probably could have put all the steel aboard her into one sea chest. But when the fifth *Independence* joined the U.S. fleet this year, she carried the widest variety of specialty steels ever assembled. *57,000 of her 60,000 tons are steel.*

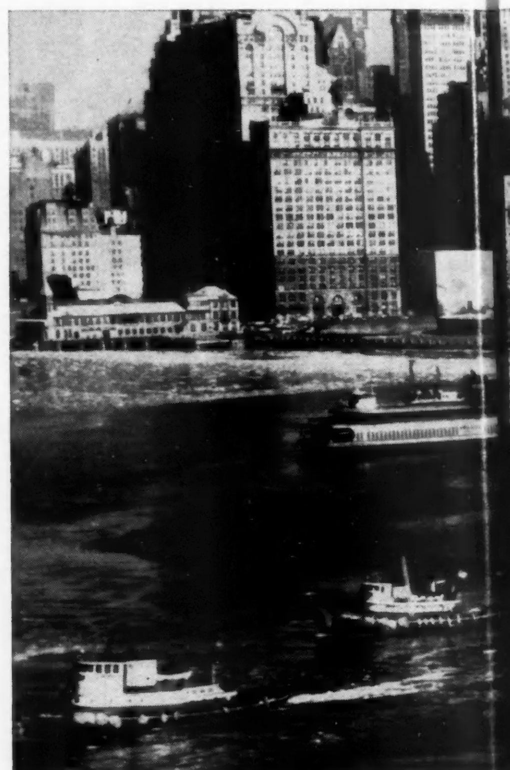
The *Independence* is big. She carries a crew of 3,500 and her quarter mile of runways could park two luxury liners side by side. Turn her on end and she'd reach up to the 80th floor of the Empire State Building. Total working area for flight operations is over six acres.

The *Independence* is built of steel, much of it supplied by United States Steel. For the greatest possible strength and toughness U.S. Steel furnished two types of specially formulated and treated armor plate. Steel cables, strong enough to stop a landing jet bomber, were furnished by the American Steel & Wire Division of United States Steel. Her four 66½-foot, 50-ton propeller shafts were forged at the USS Homestead Works. And so it goes. From flight deck armor to the stainless steel used in her hospital, galley and crew's quarters, USS Steels play an important part in the performance of one of the Navy's finest ships.

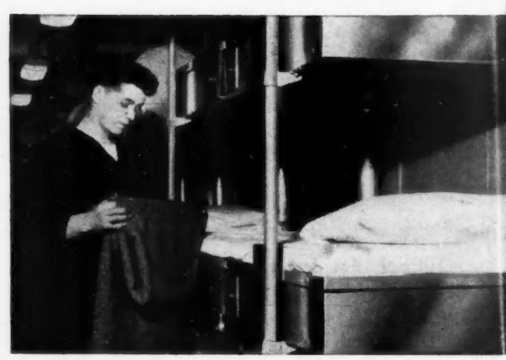
It took three years to build *Independence*. It took 50 years of research and development to perfect the specialty steels of which she is made.

USS is a registered trademark

57,000 tons of ste



Something new in tie-downs. Instead of welded tie-downs, *Independence* has dimples placed at specified points in flight and hangar deck armor. U. S. Steel developed special dies for use in a 12,000-ton press, worked with the plate while it was cold. Danger of welded-in units breaking loose from overhead blast is now eliminated.



Hammocks are a thing of the past. Pullman-type bunks with individual reading lights make crew's quarters much more comfortable.

ste go to sea with the USS "Independence"

Lots of room, lots of steel here. Hangar deck aboard *Independence* can store 100 jets, is as big as two and a half football fields.

an-
ew's

A Critical Analysis of 30 Leading Blue Chips

(Continued from page 452)

business characteristics of food companies in general. Whereas most manufacturing organizations rank not too far apart in terms of both sales and assets, Swift was, in 1958, the country's eighth largest industrial company in sales but only 58th in asset rank. This contrast indicates at a glance both the advantages and problems of the meat packing business: hugh volume, rapid turnover of inventory, low profit margin. The latter condition, combined with extreme irregularity in live stock prices, has made the packing companies unattractive to investors in recent years; indeed it is a remarkable achievement that this industry has been able to hold its head above water on a profit margin running less than ½% of sales. In terms of invested capital Swift's return was a mere 2.7% in 1958—comparable with that of the railroad industry. The picture for a new stockholder is not quite as dismal as these figures suggest, as the shares can be purchased at a substantial discount below their book value of $62 a share, and the very substantial recovery in net income for the fiscal year ended last October should be extended considerably again this year. Although the meat packers have cut waste to the bone—a literal as well as figurative expression in this case—by developing all kinds of byproduct industries, their business remains overwhelmingly dependent upon livestock marketing, which is, in turn, vitally affected by crop and political conditions. Right now Swift looks better than for a number of years, but just the same conservative investors should avoid this situation.

One of the oldest corporate enterprises (founded in 1837), **Procter & Gamble** has long been known to the housewife primarily for two products, Crisco and Ivory Soap. While neither of these have been eclipsed in consumer acceptance, the company has introduced many new products in recent years, among them several of the most popular detergent cleaners. Well entrenched as it is in the food, cosmetic and household markets, P. & G. is relatively invulnerable to the business cycle, although it is essential, of course, to maintain its position by intensive consumer advertising. Prior to the 1950's, when the company was dependent upon vegetable oils, many of them from foreign sources, as the main ingredients for its soaps, earnings were more volatile, but during the past decade both sales and earnings have exhibited a remarkably steady, gradually rising trend. With these advantages the stock, at a multiple of 22.7 times 1959 fiscal year earnings of $3.95 a share looks a little more reasonably valued than most offerings in the current market.

In the important farm implement industry **International Harvester** is undoubtedly the leader, being roughly double the size of **Deere,** its closest competitor. The agricultural revolution which has occurred within the lifetime of men still young has given farm machinery an absolutely essential role in our economy and has happily made surpluses rather than chronic shortages our major agricultural problem. Accordingly, the industry enjoys a very favorable long-term growth potential. Nevertheless, the vagaries of crop and weather, compounded by political interference, unavoidably create a cyclical pattern for agricultural implement sales and withholds the highest quality rating for the industry. International has offset these disadvantages to some extent by complete vertical integration, by development of a world-wide market (including manufacturing plants in Sweden, France and Australia), and by considerable diversification. Under the last heading the company has achieved the status of the largest domestic producer of heavy trucks. Interrupting a ten-year intermediate declining trend earnings recovered sharply to an estimated $5 a share for fiscal 1959. It is unlikely that this improvement can be extended very much in 1960, but the price/earnings multiple of 9.6 times is extremely modest and this issue looks like one of the better values available just now.

As the analysis of this list of widely followed blue chips is to be continued in the next issue, a general summary at this point would be premature. Suffice it to note that the companies just discussed, with two or three exceptions, enjoy particularly favorable prospects for the early 60's. At the same time problems of varying difficulty can be visualized in the path of each of them. What is really important is that the quality of their management provides the best possible hope for continued success. These issues are, therefore, correctly esteemed as sound investments, but this conclusion does not justify immediate purchase in disregard of such customary criteria as yields and price/earnings ratios. END

World Trade Outlook For 1960

(Continued from page 465)

grains, fats, vegetable oils, and oil seeds boosted overseas sales by about $250 million in 1959 and further increases are predicted for 1960 by Government trade experts.

The Geographical Pattern

Among major areas, exports to **Canada** showed the strongest gain during 1959, advancing by about 10%. Another boost is predicted this year, reflecting an expanding economy there and renewed U.S. investment interest in Canada. Although the United States is still by far the largest supplier to the Canadian market, its share has dropped to a postwar low of slightly less than two-thirds. Our imports from Canada also gained by about 10% last year, with the increases mainly in lumber, wood pulp, and iron ore.

U.S. exports to **Europe** dropped slightly in 1959, whereas imports jumped by more than 40% due to greatly expanded purchases of automobiles, steel, and machinery, particularly from the Common Market countries and Great Britain. Our sales to Europe should register major gains this year as a result of booming prosperity there and the mounting pressure for ending of remaining restrictions on imports from the U.S.

Exports to **Asia** last year were virtually unchanged from 1958, but some improvement is fore-

cast for 1960. Japan—our major export market in the Far East—has liberalized import restrictions as a result of its improved exchange position. United States imports from Asia climbed by a third in 1959. Purchases from Japan soared by more than 50% with the increases covering a wide range of products—textiles, shoes, transistor radios, toys, and steel. There was also a large gain in rubber imports from Southeast Asia and cotton textiles from Hong Kong.

Impressive advances are being made in U.S. trade with **Australia.** Exports there rose by nearly a third last year, reflecting early delivery of jet aircraft, and may expand further this year. U.S. imports from Australia have doubled due mainly to increased purchases of meat.

Among the less industrialized areas of the world, **Latin America** is our largest export market. Although we are their principal supplier, we are slowly losing ground to European and Japanese exporters. Our sales there dropped sharply in 1958 and by 10 to 15% more last year, reflecting the slow recovery of their export income. Much of the difficulty stems from reduced dollar earnings. U.S. imports from Latin America grew by only 3% in value last year, versus a more than 25% increase in imports from the rest of the world. In part this was due to still depressed primary commodity prices as the volume of our imports from Latin America gained proportionately more.

For 1960 some further pickup in the volume of U.S. imports from Latin America is in prospect. This improvement, together with lending by the newly-formed Inter-American Development Bank, should provide sufficient dollars to bolster our 1960 export sales south of the border. President Eisenhower's forthcoming visit to Latin America is bound to create greater understanding and promote the friendship necessary to provide the atmosphere for close political and trade relations. END

Analysis of The President's Budget Message

See Our Issue of January 30

Why 1960 Is A Time For Caution In The Bond Market

(Continued from page 455)

Kingdom, Consols (bonds which have no stated maturity date) are trading to yield above 5% and ► the World Bank recently had to pay 5¼% to float a sterling issue of its bonds.

With these conditions abroad we may find foreign borrowers coming to the United States for money or, alternatively, we may find funds now in the United States flowing abroad in search of higher returns. In either case the influence will be for higher interest rates and lower bond prices here. As Governor Coyne of the Bank of Canada said two months ago:

"With all governments determined to promote a high level of employment, with many underdeveloped countries needing to import capital from abroad, with international institutions seeking to increase the flow of such capital, and with many national governments also providing capital asistance to various other parts of the world, it is inevitable that the demand for capital will press upon the annual supply of new savings for years to come, as far ahead as it is worth our while to look."

"This means, in my judgement, that we have entered upon a longer period of higher interest rates than those which were prevalent in North America in the depressed thirties, the wartime forties and the early postwar period, although there will be, of course, short periods of moderate reduction in the demand for capital when interest rates will decline."

Squeeze on the Banks to Increase

No country in the world saves more than the United States. But no country has larger capital investment programs to finance. As a result we rarely see the spectacle of savings going to waste for lack of suitable investment opportunities. Indeed, more often than not, we have to count on the nation's commercial banks to step in and make up the difference, through credit creation, between the real savings of the people and our total needs for capital and credit.

The trouble now is that the commercial banks are in a tighter position than at any time since the 1920's. The major New York banks, for example, have more than 71% of their deposits in loans, compared with a maximum of 66% at the peak of credit stringency in 1957. Moreover, the banks have to keep another 18% of their demand deposits as a reserve at the Federal Reserve. When one considers that in addition to the statutory reserve against deposits, most banks like to keep a secondary reserve of U.S. government securities as protection against emergencies, it becomes obvious how close we have approached the limit of the ability of the banks to extend credit. *Any new substantial increase in loan demand is likely to be met only at increasingly higher rates.*

The ratio of loans to deposits has considerable significance for bond prices and interest rates because U.S. commercial banks hold some $60 billion Treasury securities. When the banks come under pressure for funds, they sell Treasury obligations, depressing prices and raising yields. It is no coincidence that interest rates have risen sharply in the past year when the commercial banks disposed of about $7 billion of U.S. government securities.

Over the past 40 years, yields on long-term government bonds have shown a consistent tendency to move up and down with the loan/deposit ratios of all commercial banks. Chart B shows the record for recent years. The loan/deposit ratio is already well above the 50.5% figure shown for June 1959. The rising trend stems from the upsurge in loan volumes with business expansion and a tendency for deposit growth to be held back by the Federal Reserve's restrictive credit policy. With credit demands in 1960 expected to rise still further, the loan/deposit ratio would work even higher. It would not be surprising to see a figure of 54% by June 1960. *With this kind of pressure on the banks, yields on long-term U.S. government securities*

might well approach 4½%, as shown on the chart.

The Government's Influence

The Federal Government's return to a balanced budget, or even to a surplus in the budget, could be extremely helpful to the bond market. The importance of a surplus is two-fold. Most directly, it means that the Treasury can retire outstanding debt and thus supply funds to the money market, rather than strain the market with borrowings as it did in fiscal '59 when the federal deficit exceeded $12 billion. *Less directly, but hardly less important, a balanced budget relieves inflationary pressures and it is fear of inflation which has led so many people to stop buying bonds. A balanced budget is the single most important achievement if we wish to convince the foreign holders of some $18 billion in short-term dollar balances that the future of the dollar is secure.*

On the other hand, even with a balanced budget, the Treasury is sure to be a frequent and troublesome borrower in 1960. So much of the public debt is short-term, that some of it is continually coming due. In fact, no less than $127.4 billion of the interest-bearing federal debt was due or redeemable within a year on December 31. The most serious problem is the $39.6 billion total of Treasury bills outstanding. Treasury bills—called the closest thing to cash by Federal Reserve Board Chairman William McChesney Martin — mature from within a week to within a year and are largely owned by business corporations because they can be turned into cash so easily. The Treasury, and the money market, will face a most serious problem in 1960 if corporations find it necessary to unload any sizable amount of bills to finance inventory building or capital expansion programs.

● Moreover, the bond market outlook could be changed for the worse if Congress decides in 1960 to eliminate the 4¼% legal limit on rates which the Treasury may pay on new bond issues. The Treasury has been effectively barred from issuing any new bonds since last June by failure of the Congress to comply with the President's request for removal of the limit. Ironically, Congress did not succeed in its aim of saving interest costs. The Treasury has been forced to borrow in the over-congested short-term market on securities due within five years (on which there is no rate limit). It paid 5% to sell five-year notes in October, at a time when Treasury officials felt they could have borrowed more cheaply in the long-term market if the 4¼% limit had not blocked them. In December the Treasury paid 4.67% to sell three-month bills.

● Whether or not Congress will remove the limit in an election year remains to be seen. It is significant that a Congressional Joint Economic Committee staff report tended to favor removal of the limit, although the Committee's chairman, Paul Douglas of Illinois, has opposed removal. To the bond investor, the important fact is that removal of the limit, and the prospect of additional offerings of Treasury bonds, would be a depressing influence on bond prices.

Federal Reserve Policy

Apart from the business situation, the most important factor influencing bond prices is the Federal Reserve's monetary policy. This determines how much money will be available to buy bonds and how much pressure the commercial banks will be under to sell bonds. *There are still people who argue that the Federal Reserve will turn toward an easy money policy in 1960, because 1960 is an election year. All of the experience of the last ten years argues against this.* In 1956, the last presidential election year, the Fed increased its discount rate four times.

Other people feel that if the Democrats win the election, they will enthrone cheap money. It is true that the Democrats have made the so-called tight money policies of the Federal Reserve a focus for attack. But this has been done during their years as an opposition party. The responsibility of office often brings a soberer approach. It needs to be remembered that the Federal Reserve was freed from domination by the Treasury under the leadership of a Democratic Senator, Paul Douglas, and under a Democratic President.

The likeliest development for Federal Reserve policy in 1960 is a continuation of the current restrictive credit measures now in force. Discount rate probably will be increased from 4 to 4½%. Whether this will be the only increase of the year will depend on the strength of business and the extent of inflationary pressures. We are already beginning to see the early stages of a wave of price increases and no one should be surprised if the steel settlement is followed by a steel price hike.

However, one thing can be counted on. The Federal Reserve authorities have no desire to make credit so tight that business will be throttled for lack of funds.

Why Buy Bonds?

With all of the adverse considerations noted above, the fact is that 1960 will probably offer some rewarding opportunities to buy bonds. The seeker after capital gains who is fearful of the high price-earnings ratios found in the stock market may well decide that the Treasury 2½s of 1967-72 are a good buy if they should go down to 75. *The point is that at some time in the next few years the economy **is** likely to turn down for a while. And while it does, bond prices will rise.*

Table I shows the possible dimensions of gain, comparing current prices with the highs recorded during the 1958 recession. As the table shows, profits could run from 10 to 20 points or from 15 to 25%. Of course, investors who are willing to accept the risks of buying on 5 or 10 point margins could double or quadruple their funds. What is needed to succeed in this sort of speculation is patience, for improving bond prices may be one or even two years away, and fortitude to stand possible further decline (and losses) in the meantime.

What to Do as Investor or Speculator

The true investor, as opposed to the capital-gains-minded speculator, should have less difficulty deciding when or whether to buy bonds. Here the question is whether one will need the money invested before the bonds mature.

(Continued on page 492)

If so, then short-term issues are indicated. The purpose of investing is to secure 5% or so on savings, rather than the 3½% currently being paid by savings banks. The investor can take his choice of any of the recent note issues sold by the Treasury with coupons of 4¾, 4⅞ or 5% or he can wait for 1960 to bring (perhaps in February when $11.4 billion Treasury debt must be refinanced) even higher coupon rates.

It may be that an investor is willing to give up something in quality for a higher yield. The bonds of leading corporations are only marginally less safe than a U.S. Treasury obligation (for the solvency of major corporations benefits from the Federal Government's commitment to maintain a high level of economic activity and employment) and they provide considerably better returns, as indicated in Table II.

Interest on corporate bonds, and Treasury obligations too, is subject to income tax at rates ranging from 20 to 91%.

► *Investors subject to the higher rates of income tax* should concentrate on investment in the tax exempt obligations of states, local governments, and public authorities of all kinds. For example, an investor with taxable income of $16,000 a year is subject to a marginal income tax rate of 50%; for him a 3.90% return on a tax exempt Philadelphia school district obligation is equivalent to 7.80% on a Treasury or corporate bond. The drawback is somewhat less marketability than on comparable Treasury obligations.

► The *individual investor in tax exempts* should probably avoid Aaa-rated obligations, for yields on such top quality paper are held down by the fact that many institutional investors are legally restricted to Aaa bonds. However, it is doubtful if the investor should accept bonds rated less than A; it is better to be safe than sorry, and during the 1930's a number of smaller municipalities had to suspend debt service. One further point: *only the interest income on a municipal bond is tax exempt; a municipal selling at a discount is taxable as far as the capital gain is concerned.*

► *Americans seeking bond investments* are probably best advised to restrict themselves to U.S. obligations. But many people consider the bonds of our neighbor to the north, Canada, second only to our own bonds in safety. Canadian securities must, of course be paid for in Canadian funds and the investor would have to buy Canadian dollars at the current 5% premium. To be sure the investor would receive Canadian dollars again at maturity but he might suffer a loss on conversion back into U.S. dollars if the premium should weaken or even disappear during the time that he was holding the bonds. Table IV provides a selection of Canadian government issues which offer yields of 5 to 6%.

Summary of 1960 Bond Market Policy

The prospects for capital gains on bonds in 1960 are limited, though holders who are willing to wait may well see substantial price improvement in 1961. Purchases made with a view to capital gains need to be well timed; prices could go down five points more next year, at which time bonds would be a buy. Investors contemplating purchase of Treasury obligations might well wait and see what Congress intends to do with respect to the 4¼% bond rate limit.

(a) Individual investors buying for yield also should time their purchases for periods of bond market pressure. *Although conditions change from day to day, the quarterly tax period next March might well be a period of substantial strain in the money market when bonds might be bargains.* (b) Individuals who may need their funds on short notice should restrict their investment to obligations maturing within two or three years. Many people might find that the Treasury's new series of "long" bills—which should be available in January to provide a real return of 5 to 5¼% for 4 to 12 months' holding—offer an ideal combination of attractive return and liquidity.

The opportunities 1960 will bring to the bond investor can make a substantial contribution to a prudent investment program. They should not be neglected. END

1960 Outlook For Leading Industries

(Continued from page 459)

months hence, which is currently quoted about 3 cents a pound less than spot metal. Yet even at 30 cents a pound the big integrated producers are assured of highly satisfactory profits.

The **aluminum** industry expects a 10-15 per cent increase in sales in 1960, with profits substantially better than in 1959 because of the higher prices recently instituted for pig and ingot by the primary producers, which restored the price to the level of early 1958, when the metal was cut 2 cents a pound to meet threatened Russian competition. While wage increases have been granted, the price increase appears more than sufficient to compensate for higher labor costs. Primary aluminum production in 1959 was a record 1.9 million tons, a 25 per cent increase over 1958, but by the year's end domestic capacity had increased to 2.4 million tons, hence the industry was operating at no more than 80 per cent capacity.

Prospects for larger use of aluminum in the construction, transportation, and automotive fields are good, but price cutting still persists in certain fabricated products and there is worry over imports which benefit by a lower price for metal abroad. There is little doubt that competition will be keen for new business. However, the growth factor for aluminum appears to exceed that for any other non-ferrous metal.

Zinc enters 1960 with entire confidence in strong demand and possibly a price advance above the current 12½ cents a pound. Increasing consumer interest is shown by the galvanizers and the diecasters and this appears certain to continue under good business conditions. Statistically the zinc market shows marked improvement with production curtailed by strikes and sharp reductions in producers' stocks. In particular the galvanizers, best customers of zinc, are reported to be booked to capacity for six months ahead.

Quotas which have been set up

for both zinc and lead appear certain to continue, thus lessening the impact of large imports from abroad on the domestic market. The London market for zinc has been consistently strong in contrast with lead.

Lead is in an uncertain position. Some of its major markets, notably cable covering, are encountering competition from plastics, and aluminum and lead pigments are losing out to titanium. On the other hand, domestic production has tapered off sharply while overall consumption has held up well. Two successive price cuts have brought the metal down to 12 cents and at this price, demand may be expected to improve. As lead and zinc usually occur together in the same ores, the improved outlook for zinc will benefit most lead producers as well. It seems rather unlikely that the lead price will decline further and an advance in the London price above the present 9¼ cent level would no doubt stimulate recovery in U. S.

OFFICE EQUIPMENT— By John McCracken

Profits were lower for the office equipment makers in 1959. Typewriter sales and other standard lines failed to recover after the recession, and thus no offset was provided for the heavy research expenditures.

In the year ahead things should perk up, however, since high inventories of standard equipment have been worked off and demand has picked up substantially. But this improvement may not entirely offset the heavy research outlays. The bright hope, however, is that various companies now have production models of electronic equipment ready—or near ready—for market as revenue builders.

Thus, for late 1960 and 1961 the outlook is better. By then data processing machinery will be coming off production lines, with a flood of modern equipment hitting the market and generating sales.

In the light of the trend toward increasing automation, equipment makers should fare well in the period ahead. However, investors should consider only those companies where prospects for continuing earnings growth are evident.

PAPER—By Burton H. Wheeler

The demand is still good for most paper products, but capacity remains so great that profit margins are under pressure. Again selectivity is the answer, because some of the companies are doing extremely well.

The overall problem of excess capacity is still a prime handicap. Output of paper and paperboard will top 34 million tons for all of 1959, a full ten percent increase over 1958 figures. Nevertheless, only a minority will score earnings gains over the record levels of 1955 and 1956, although most will report higher earnings than in the recession year of 1958.

In effect, the paper industry is still a year or two away from better profit margins, excepting where new commercial products are bolstering earnings. But demand continues to increase, now at a faster rate than new capacity is being added, with the prospect that the two are moving closer so that they are gradually coming into balance. This of course will depend on continued general economic prosperity.

Most paper stocks are selling at rather high levels at the moment, and would require a considerable further improvement in earnings to justify purchase in the uncertain stock market ahead.

PETROLEUM—By John H. Lind

Domestic demand for oil products in 1960 will be 3.5% to 4% above last year's, according to most governmental and industry estimates. Crude oil production will show a somewhat larger gain of about 5.5%.

This moderately healthy increase in both refined products and crude oil is perhaps more apparent than real. In the crude oil sector it is due in part to a comparison with the first half of last year, during which high imports kept domestic production down—and, in the refined oil sector, it reflects the prolonged steel strike of 1959, which caused a sharp drop of heavy fuel sales to industry. Still, the oil industry will undoubtedly show some improvement over 1959, although it will

not be very impressive.

The industry's two top problems are excess refining stocks and a world-wide over-supply of crude oil. As to the first, an improvement is in sight, since nation-wide oil stocks are now rapidly declining towards a more normal working level. If the industry can continue to curb its persistent tendency to refine more oil than it can sell, the inventory situation should be considerably better next year than this.

The possibilities for improvement look much less promising for the world-wide over-supply of crude oil. In fact, this problem is only now beginning to make itself felt on a significant scale, as the giant new fields in the French Sahara and Libya are coming into full commercial production.

There is no doubt Western Europe will cut back its use of Middle East oil and substitute, at least partially, the easily accessible oil from the Sahara and Libya. And this may cut into the profits for those American companies that will have to buy Saharan oil from French oil companies.

Yet, the possibilities are for higher profits in the oil industry over last year, due to the fact that most oil companies plan to cut back on their capital expenditures in 1960.

According to the latest report, in a direct reversal of previous trends, the U. S. oil industry will actually spend less on capital expenditures this year than last, and this may be reflected in a favorable earnings showing in 1960.

TEXTILES—By J. C. Clifford

The textile industry had one of its few boom years in 1959. With consumer spending holding at record levels, natural fabrics are enjoying a major boom. Moreover, new uses for textiles and a slowing down of new additions to synthetic fabric capacity have helped firm the price structure, although there is still some "spot weakness," especially in Nylon prices and other tire yarns. Imports are now under control as a result of joint American-Japanese agreements a year ago, protecting the important low priced clothing market.

Investors are warned, however, that the past history of the industry is not one that instills long range confidence. The advance of approximately 27% in the textile shares in 1959 has discounted the sharp rise in production—but output is now at a peak rate and the industry is not likely to be able to hold its pace through the first half of 1960. In view of the magnitude and length of the upswing in both textile production and stock prices, we do not suggest new commitments now. END

For Profit And Income

(Continued from page 477)

high of 37. It is now up only slightly at 32. The company's "Ben-Hur" super-movie, costing about $15 million, is a hit. After cost is recovered, profits could be large. The stock has further speculative potentials.

What's New?

What about some new stock recommendations? Answer: this seems to be a good time to stop, look and listen for a while. Market strength around the year-end has often proved temporary. We see no need for hurry. Cash reserves may be more opportunely employed later on.

Cross-Currents

In recent sessions to this writing, the stock groups performing better than the market are principally automobiles, baking, department stores, electrical equipment, home appliances, mail order stocks, metal fabricating, oils, rail equipment, steel and tobaccos. Those recently on the lagging side include aluminum, construction, drugs, farm machinery, meat packing, industrial machinery, office equipment, paper, textiles and tires.

Big Gains

In most cases, industries with marked gains in 1959 earnings should extend them at least moderately this year. However, the sharpest gains are likely in those that were hit hard by the steel strike. Wide betterment seems most assured for the steel industry, sizable profit gains likely for the railroads, rail equipment, coal producers and some machinery makers. Translating this into stock selection is something else again. The market for stocks is always ahead of gains or shrinkages in earnings.

What Happened?

Abbott Laboratories, among the leading makers of ethical drugs, was once a growth situation. In the decade 1938-1948 profits gained some 400%, dividends about 200%, and the stock had a maximum rise close to 400%. But in the subsequent eleven years, with 1959 share net estimated around $3.40 a share, the additional profit gain was less than 15%. At an indicated $1.90 total, there has been no gain in dividends for some years. From an excessive 1959 high of 84¾, the stock has now receded to about 62—a level it reached as far back as 1951. What happened? Well, some competitors managed to go ahead faster in benefits from research, as translated into profits. More often than not, today's "hot" growth stock

becomes "just another stock" at some later time. Keep that in mind when you contemplate paying 40 or 50 or more times earnings for one or another of the popular "growth" stocks of 1959 and early 1960. END

Appraisal of State of the the Union Message

(Continued from page 448)

fourteen recent launchings, the Atlas Intercontinental Ballistic Missile at ranges over 5,000 miles "has been striking on an average within two miles of the target."

He noted, too, that in 1960 nuclear-powered submarines, some armed with Polaris missiles, will enter active service.

The President devoted only one paragraph to the conventional forces, noting that the Army and Marines were getting new weapons under a costly program of modernization.

Eisenhower said the United States will practically double space spending in fiscal 1961. He promised "improvements" in the Young Space Law and indicated he would ask Congress for about $500,000,000.

Research and Development in this Field

Congressmen have criticized the present space program on the ground of too much division between the Civilian National Aeronautics and Space Administration and The Military. Eisenhower is expected to ask Congress to correct this by centralizing control of Space activities in the White House.

Civil Rights

The Civil Rights issue came in for its share of attention in the message. Eisenhower renewed his plea for a broad program, with priority emphasis on protection of voting rights which he called "our first duty." The enactment of some form of compromise legislation is considered almost certain in this election year. The House is expected at least to pass Administration-backed legislation to require states to preserve voting records for federal inspection and to make it a federal crime to obstruct court-ordered school integration or to flee state prosecution for bombing property. But the final result will depend on the Senate's attitude.

In Conclusion

Eisenhower wistfully expressed hope that Congress would avoid irrelevant "wrangling" with the Executive branch, but there, undoubtedly, will be a difference of opinion as to what is irrelevant as the election campaign develops.

The State of the Union Message reflected to some extent the ambivalence which has afflicted Eisenhower's Administration frequently as it attempted to reconcile its desire for a balanced budget with the necessity to maintain a strong military defense and continued aid to free nations abroad. It appears impossible to tell, until more specific details become available, whether the President's projected budget surplus can be achieved without cutting some of the services he proposes to provide. He is predicating his estimates on the assumption of a booming economy, improvement in the foreign trade picture, increased tax revenue and the hope of holding down expenditures.

He has placed his optimistic assessment on the line at the mercy of a number of relatively unpredictable factors. Only time can tell whether his hopes can come close to reality. END

As I See It!

(Continued from page 443)

have had a most telling effect, for without question the Soviet Union's announcement that they planned to use the Central Pacific area as a missile test range, warning ships and planes to stay out of the area, which lies between the Marshall Islands, under U. S. mandate, and U. S. owned Palmyra and Johnston Islands and Hawaii—was designed to tell the Asiatic people that the United States had no power to help them.

In effect, Russia set aside 27,000 square miles in the South Pacific as a Russian Mare Nostrum — "Our Sea" — putting the peaceful people of the South Pacific in jeopardy—using a direct threat just before Khrushchev sets out on his journey to the Pacific.

If this is what the Soviet Union considers to be the "spirit of Camp David," then the Summit Meetings are a snare and a delusion, and clearly shows up the weakness of Macmillan's soft policy in dealing with the Russians. A firm policy, as suggested by General de Gaulle and Chancellor Adenauer, is the answer.

Therefore, unless the United States challenges Russian arrogance and acts in concert with Japan, Australia and the other South East Asian States that are jeopardized, in accordance with the plan to bring this matter up in the UN, it will surely give credence to Russian claims of military and diplomatic superiority and emphasize the weakness of the United States. END

★★★ Book Reviews ★★★

The Darkness and the Dawn

By THOMAS B. COSTAIN

The Darkness and the Dawn is filled with suspense from beginning to end. It includes an international horse race, a spectacular trial in the most unusual of courts, and one of the decisive battles of all time. This new Costain novel will be compared to his surprise best seller, *The Black Rose*, which swept the book lists for many months in the 1940s, although this latest work is, in all important respects, much superior. Portraying the days when the might of Attila the Hun hung over the civilized world like a black cloud, the author brings into sharp focus the loves and hates, ambitions and schemes of all the main characters. Here they are in full perspective: Attila, the Scourge of God, his powerful barbarian army, his many wives, his sons, his generals, and his fantastic court; Aetius, the dictator of Rome, the most controversial figure of his time; Honoria, the love-minded princess of the imperial line; Leo, the strong and courageous pope; Nicolan, the hero of the story, and the girl with golden hair who rides the black horse.

It is the opinion of the publishers that this amazing story, drawn on the broadest of canvases, is the best historical novel that has come from the pen of Thomas B. Costain.

Doubleday $3.95

Poor No More

By ROBERT RUARK

Craig Price's picture on a cover of *Time* magazine showed a face older than its years, eyes cold and defiant but lonely too, physical scars that suggested a rough life and kept the face from being too handsome.

A rough life it had been. As a poor boy in a small Carolina town Craig bought his grandfather's advice: "Don't go through your life with a hookworm philosophy—just settin' and lettin' it pass. Grab it and use it and kick the stuff right out of it, and don't never, ever, let it run *you*."

To Craig it made sense. The creed became an inescapably logical way to get from the poverty, hunger, and loneliness of his Carolina youth to where he wanted to go—the top, the pinnacle of power epitomized by that *Time* cover. Craig himself summarized it in a moment of honest confession to a woman he loved, "I horsetraded and gambled, mostly with a rigged deck . . . I bought this and sold that and borrowed from this to buy that . . . I bought some companies and milked them and threw them away. I met some women, attractive women, and repeated the process. I drained them dry and threw them away . . ."

Among these women was Julie du-Fresne, at first only his college roommate's mother, later the fascinating tutor of an eager pupil. Scared, defenseless Maybelle Grimes had something he wanted—her father's mills. There was also beautiful, sweet Libby Forney, who had been warned that falling in love with Craig was heartbreak. Finally, at the top was Susan Strong. It cost him a fortune to get her; the price proved too high for both the man and the woman.

Craig's triumphs were vital; the means was not important. In college he cut corners, moral and legal. As a seaman on ratty freighters and in dirty seaports, he embraced skullbusting and thievery as a way of keeping a berth and filling an aching belly. As a fledgling businessman he traded on Maybelle's vulnerability and her mother's terminal illness to bull his way into money. From then on the dog-eat-dog pattern was the quickest way, the best way, Craig's way. And it worked, right up into millions of dollars and the ownership of anything he wanted, human or inanimate.

In this big, searing novel Robert Ruark has created a protagonist at once dismayingly familiar and fortunately unique. Craig Price is ruthless and sometimes compassionate, both cynical and sentimental, devious and yet frequently disarmingly honest. In short, Craig Price is the inconsistent, unpredictable chameleon of motivations and principles that are most men—but the stakes were higher, Craig more desperate, than most. And in Craig's case the driving compulsion to stay on top, to be "poor no more," was strong: it took him longer to learn what he was really looking for at the end of the hard road.

Henry Holt $5.95

Fringe Benefits and Their Federal Tax Treatment

Hugh Holleman Macaulay, Jr.

In this important and controversial book Dr. Macaulay looks at the effects on economic activity and on the federal tax system of preferential tax treatment for fringe benefits.

Bringing together information that has heretofore remained in separate studies, he presents a coherent body of material which shows that fringe benefits have grown surprisingly large without our being aware of it.

Tax-preferred fringe benefits going to workers outside of agriculture and government have increased from $15.5 billion in 1953 to $22 billion in 1957. This jump, important in itself, is further emphasized when we see that tax-preferred benefits are rising more rapidly than taxable wages.

Dr. Macaulay describes existing fringe benefits and traces the history of their growth. To determine if tax preference is involved, he examines the present treatment of particular fringe benefits and of fringe benefits as a whole. Various inequalities or inconsistencies in tax treatment are brought to light, and recommendations are made for alternative tax treatment in certain cases.

Fringe benefits may include pensions, life insurance, and social security, as well as day-to-day ameliorations of working conditions. They affect the lives of most working men and women and their families. The extension of fringe benefits and their tax treatment are therefore vital questions for a large majority of employers and employees in the United States.

Columbia University Press $6.50

The Frozen Revolution

Poland: A Study In Communist Decay

By FRANK GIBNEY

In 1956 Europe had two revolutions (ironically, they were the first since the 1917 revolution in Russia)—the Hungarian revolution, suppressed by Russian tanks; and the Polish revolution, which half succeeded before it was frozen in its tracks. In this brilliant book Frank Gibney tells the story of how Poland's courageous action almost succeeded, shows why it was doomed to become the Frozen Revolution, and what is the nature of its peculiar importance to the free world today.

His opening chapter, "The Makings of an October Day," is both an account and an analysis of Gomulka's return to power in the fall of 1956. He follows with chapters on the difficulties the Party is up against in Poland in 1959, the extraordinary role of Polish Catholicism, the human problems of the once German Western Territories and the Ober-Neisse line, and the brave, half-blind struggle of the Polish intellectuals. He presents a survey of Poland's centuries-long history, and an account of her horrifying experiences in the last war. He concludes with "The Plan and the Jungle," an eye-opening discussion of the political-economic contradictions inherent in Communist practice.

"The Poles, in carrying out their Frozen Revolution," Mr. Gibney writes, "have gone far beyond the Hungarians in their destructive effect on the imperial Communist system. As Poland's 'humane socialism,' relatively unmarred by police terror, tried to work out its destinies by the public practice of Communism, the fallacy of this System was revealed as a gigantic laboratory of confusion, with a completeness not thought possible. The crimes of past Communist regimes were laid out in awesome clairity. Even when trying hardest to correct them, by their own methods, Poland's national Communist leaders gave a lesson in the decay of this system as a political or economic, not to say moral, way of life. The conflicting freedoms and repressions inside their country gave the world another unique lesson—for the customs of a free society, wherever the Poles reintroduced them, began forthwith to drive Communist methods out. Poland's half freedom infected the rest of the Communist world. There is no better witness to this than the constant efforts of the Soviet leaders to smother the Frozen Revolution and wall it up within their own broad glacier.

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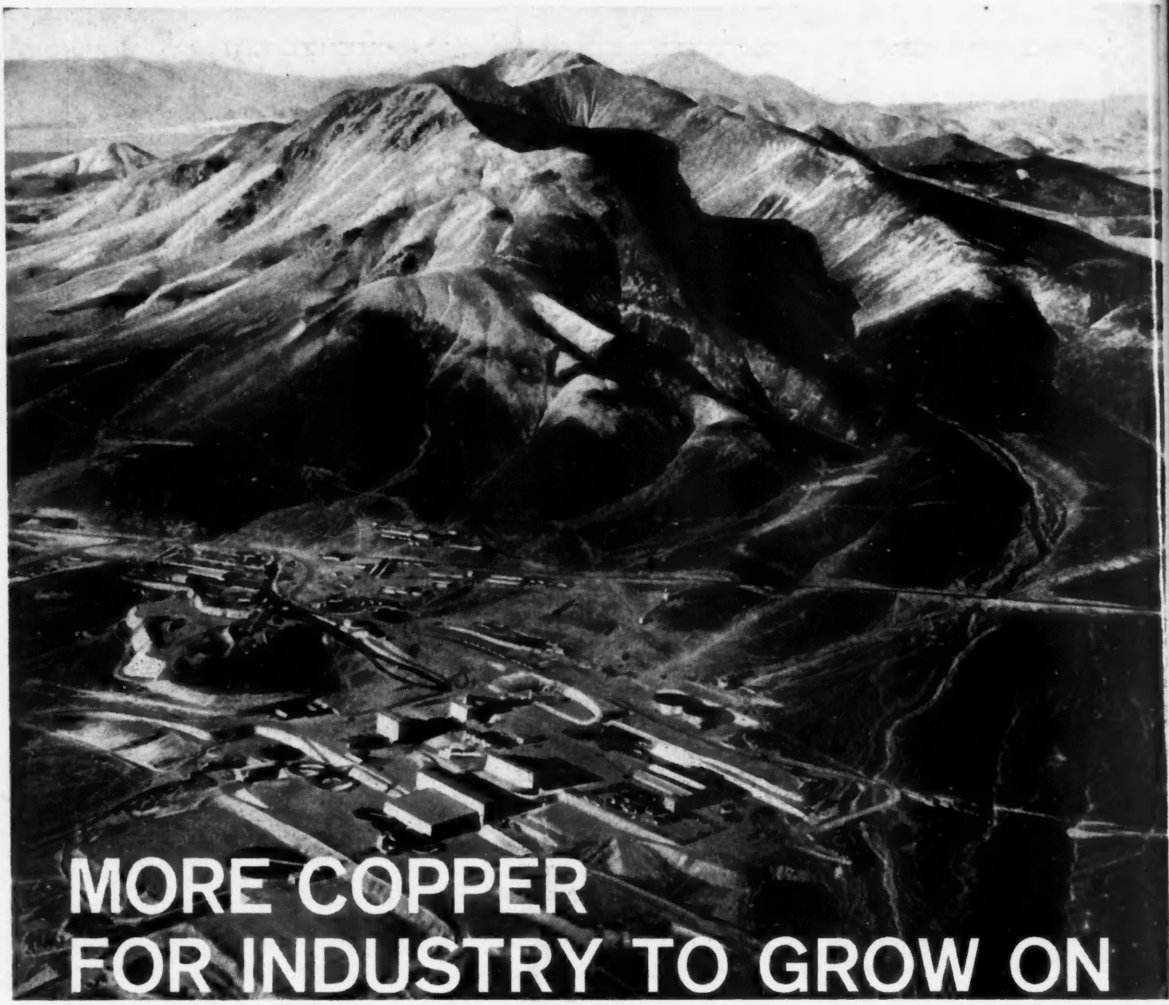

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